

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2016

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-35362

**TRIPADVISOR, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

80-0743202  
(I.R.S. Employer  
Identification No.)

400 1st Avenue  
Needham, MA 02494  
(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code:  
(781) 800-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Class	Outstanding Shares at November 2, 2016
Common Stock, \$0.001 par value per share	132,901,210 shares
Class B common stock, \$0.001 par value per share	12,799,999 shares

TripAdvisor, Inc.  
Form 10-Q  
For the Quarter Ended September 30, 2016

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**TRIPADVISOR, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in millions, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue	\$ 421	\$ 415	\$ 1,164	\$ 1,183
Costs and expenses:				
Cost of revenue (1)	19	16	55	46
Selling and marketing (2)	210	197	584	546
Technology and content (2)	62	54	185	152
General and administrative (2)	38	37	110	114
Depreciation	18	13	51	42
Amortization of intangible assets	8	10	23	26
Total costs and expenses:	355	327	1,008	926
Operating income	66	88	156	257
Other income (expense):				
Interest expense	(3)	(3)	(10)	(7)
Interest income and other, net (Note 14)	-	13	-	15
Total other income (expense), net	(3)	10	(10)	8
Income before income taxes	63	98	146	265
Provision for income taxes	(8)	(24)	(27)	(70)
Net income	\$ 55	\$ 74	\$ 119	\$ 195
Earnings per share attributable to common stockholders (Note 5):				
Basic	\$ 0.38	\$ 0.51	\$ 0.82	\$ 1.35
Diluted	\$ 0.37	\$ 0.51	\$ 0.81	\$ 1.34
Weighted average common shares outstanding (Note 5):				
Basic	146	144	146	144
Diluted	147	146	147	146

(1) Excludes amortization as follows:

Amortization of acquired technology included in amortization of intangible assets	\$ 2	\$ 2	\$ 5	\$ 7
Amortization of website development costs included in depreciation	12	8	33	27
	\$ 14	\$ 10	\$ 38	\$ 34

(2) Includes stock-based compensation expense as follows:

Selling and marketing	\$ 5	\$ 4	\$ 15	\$ 12
Technology and content	11	8	30	20
General and administrative	6	7	19	20

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**TRIPADVISOR, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income	\$ 55	\$ 74	\$ 119	\$ 195
Other comprehensive income (loss):				
Foreign currency translation adjustments (1)	3	(10)	4	(29)
Reclassification adjustment on sale of business included in total other income (expense), net (Note 14)	-	1	-	1
Total other comprehensive income (loss)	3	(9)	4	(28)
Comprehensive income	<u>\$ 58</u>	<u>\$ 65</u>	<u>\$ 123</u>	<u>\$ 167</u>

- (1) Foreign currency translation adjustments exclude income taxes due to our practice and intention to indefinitely reinvest the earnings of our foreign subsidiaries in those operations.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**TRIPADVISOR, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in millions, except number of shares and per share amounts)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 6)	\$ 611	\$ 614
Short-term marketable securities (Note 6)	116	47
Accounts receivable, net of allowance for doubtful accounts of \$9 and \$6, respectively	221	180
Prepaid expenses and other current assets	18	24
<b>Total current assets</b>	<b>966</b>	<b>865</b>
Long-term marketable securities (Note 6)	29	37
Property and equipment, net of accumulated depreciation of \$137 and \$88, respectively	262	247
Intangible assets, net of accumulated amortization of \$77 and \$52, respectively	178	176
Goodwill	744	732
Deferred income taxes, net	44	25
Other long-term assets	54	46
<b>TOTAL ASSETS</b>	<b>\$ 2,277</b>	<b>\$ 2,128</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 11	\$ 10
Deferred merchant payables	152	105
Deferred revenue	69	64
Current portion of debt (Note 7)	76	1
Taxes payable	16	9
Accrued expenses and other current liabilities (Note 9)	126	123
<b>Total current liabilities</b>	<b>450</b>	<b>312</b>
Deferred income taxes, net	20	15
Other long-term liabilities	207	189
Long-term debt (Note 7)	20	200
<b>Total Liabilities</b>	<b>697</b>	<b>716</b>
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$0.001 par value	-	-
Authorized shares: 100,000,000		
Shares issued and outstanding: 0 and 0		
Common stock, \$0.001 par value	-	-
Authorized shares: 1,600,000,000		
Shares issued: 134,565,714 and 133,836,242, respectively		
Shares outstanding: 132,822,184 and 132,443,111, respectively		
Class B common stock, \$0.001 par value	-	-
Authorized shares: 400,000,000		
Shares issued and outstanding: 12,799,999 and 12,799,999, respectively		
Additional paid-in capital	808	741
Retained earnings	944	826
Accumulated other comprehensive income (loss)	(59)	(63)
Treasury stock-common stock, at cost, 1,743,530 and 1,393,131 shares, respectively	(113)	(92)
<b>Total Stockholders' Equity</b>	<b>1,580</b>	<b>1,412</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,277</b>	<b>\$ 2,128</b>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**TRIPADVISOR, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**  
(in millions, except number of shares)

	Common stock		Class B common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
<b>Balance as of December 31, 2015</b>	<b>133,836,242</b>	<b>\$ -</b>	<b>12,799,999</b>	<b>\$ -</b>	<b>\$ 741</b>	<b>\$ 826</b>	<b>\$ (63)</b>	<b>(1,393,131)</b>	<b>\$ (92)</b>	<b>\$ 1,412</b>
Net income						119				119
Cumulative effect adjustment from adoption of ASU 2016-09 (Note 2)						(1)				(1)
Other comprehensive income							4			4
Issuance of common stock related to exercises of options and vesting of RSUs	729,472	-			6					6
Repurchase of common stock								(350,399)	(21)	(21)
Withholding taxes on net share settlements of equity awards					(13)					(13)
Stock-based compensation					74					74
<b>Balance as of September 30, 2016</b>	<b><u>134,565,714</u></b>	<b><u>\$ -</u></b>	<b><u>12,799,999</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 808</u></b>	<b><u>\$ 944</u></b>	<b><u>\$ (59)</u></b>	<b><u>(1,743,530)</u></b>	<b><u>\$ (113)</u></b>	<b><u>\$ 1,580</u></b>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**TRIPADVISOR, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)

	<b>Nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Operating activities:</b>		
Net income	\$ 119	\$ 195
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment, including amortization of internal-use software and website development	51	42
Amortization of intangible assets	23	26
Stock-based compensation expense	64	52
Gain on sale of business	-	(17)
Deferred tax (benefit) expense	(14)	3
Other, net	5	7
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable, prepaid expenses and other assets	(40)	(75)
Accounts payable, accrued expenses and other liabilities	2	24
Deferred merchant payables	42	52
Income taxes, net	19	20
Deferred revenue	6	10
<b>Net cash provided by operating activities</b>	<b>277</b>	<b>339</b>
<b>Investing activities:</b>		
Capital expenditures, including internal-use software and website development	(57)	(93)
Acquisitions, net of cash acquired	(23)	(29)
Proceeds from sale of business, net of cash sold	-	22
Purchases of marketable securities	(145)	(150)
Sales of marketable securities	62	72
Maturities of marketable securities	22	52
<b>Net cash used in investing activities</b>	<b>(141)</b>	<b>(126)</b>
<b>Financing activities:</b>		
Repurchase of common stock	(21)	-
Proceeds from Chinese credit facilities	2	4
Payments to Chinese credit facilities	-	(41)
Principal payments on 2011 credit facility	-	(300)
Proceeds from 2015 credit facility, net of financing costs	10	287
Payments to 2015 credit facility	(190)	-
Proceeds from 2016 credit facility, net of financing costs	73	-
Proceeds from exercise of stock options	6	10
Payment of withholding taxes on net share settlements of equity awards	(13)	(66)
Other financing activities, net	-	13
<b>Net cash used in financing activities</b>	<b>(133)</b>	<b>(93)</b>
Effect of exchange rate changes on cash and cash equivalents	(6)	(8)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(3)</b>	<b>112</b>
Cash and cash equivalents at beginning of period	614	455
<b>Cash and cash equivalents at end of period</b>	<b>\$ 611</b>	<b>\$ 567</b>
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Capitalization of construction in-process related to build to suit lease obligation	\$ -	\$ 6

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**TRIPADVISOR, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1: BUSINESS DESCRIPTION AND BASIS OF PRESENTATION**

We refer to TripAdvisor, Inc. and our wholly-owned subsidiaries as “TripAdvisor,” “the Company,” “us,” “we” and “our” in these notes to the unaudited condensed consolidated financial statements.

**Description of Business**

TripAdvisor is an online travel company, empowering users to plan and book the perfect trip. TripAdvisor’s travel platform aggregates reviews and opinions of members about destinations, accommodations, activities and attractions, and restaurants throughout the world so that our users have access to trusted advice wherever their trips take them. Our platform helps users plan their trips with our unique user-generated content and enables users to compare real-time pricing and availability so that they can book hotels, flights, cruises, vacation rentals, activities and attractions, and restaurant reservations.

Our flagship brand is TripAdvisor. TripAdvisor-branded websites include tripadvisor.com in the United States and localized versions of the website in 47 markets worldwide. In addition to the flagship TripAdvisor brand, we manage and operate the following 24 other media brands, connected by the common goal of providing comprehensive travel resources across the travel sector: www.airfarewatchdog.com, www.bookingbuddy.com, www.citymaps.com, www.cruisecritic.com, www.familyvacationcritic.com, www.flipkey.com, www.gateguru.com, www.holidaylettings.co.uk, www.holidaywatchdog.com, www.housetrip.com, www.independenttraveler.com, www.jetsetter.com, www.thefork.com (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, www.besttables.com, and www.dimmi.com.au), www.niumba.com, www.onetime.com, www.oyster.com, www.seatguru.com, www.smartertravel.com, www.tingo.com, www.travelpod.com, www.tripbod.com, www.vacationhomerentals.com, www.viator.com, and www.virtualtourist.com.

We have two reportable segments: Hotel and Non-Hotel. In the first quarter of 2016, we renamed our “Other” reportable segment “Non-Hotel.” This change had no effect on our consolidated financial statements or to previously reported segment information, as there was no change in the composition of our operating or reportable segments. Our operating segments are determined based on how our chief operating decision maker manages our business, regularly assesses information and evaluates performance for operating decision-making purposes, including allocation of resources. For further information on our reportable segments see “Note 12: Segment Information,” in these notes to our unaudited condensed consolidated financial statements.

We derive the substantial portion of our revenue from our Hotel segment, through the sale of advertising, primarily through click-based advertising and commission-based transactions via our instant booking feature and, to a lesser extent, display-based advertising, subscription-based hotel advertising, room reservations sold through our websites, and content licensing. Our Non-Hotel segment consists of our Vacation Rentals, Restaurants and Attractions businesses. We derive revenue from our Non-Hotel segment from subscription and commission-based transaction offerings from our Vacation Rental business; destination activities primarily sold through Viator; and online restaurant reservations booked primarily through thefork.com.

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements present our results of operations, financial position and cash flows on a consolidated basis. The unaudited condensed consolidated financial statements include TripAdvisor, our wholly-owned subsidiaries, and entities we control, or in which we have a variable interest and are the primary beneficiary of expected cash profits or losses. All inter-company accounts and transactions have been eliminated in consolidation.

One of our subsidiaries that operates in China has a variable interest in an affiliated entity in China in order to comply with Chinese laws and regulations, which restrict foreign investment in Internet content provision businesses. Although we do not own the capital stock of this Chinese affiliate, we consolidate its results as we are the primary beneficiary of the cash losses or profits of this variable interest affiliate and have the power to direct the activity of this affiliate. Our variable interest entity is not material for all periods presented.

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”). In the opinion of management, all adjustments necessary for a fair presentation of the results of the interim period have been included. These adjustments consist of normal recurring items. We prepared the unaudited condensed consolidated financial statements following the requirements of the U.S. Securities and Exchange Commission (“SEC”) for interim reporting. As permitted under those rules, we have condensed or omitted certain footnotes or other financial information that are normally required by GAAP for annual financial statements. Our interim unaudited condensed consolidated financial statements are not necessarily indicative of results that may be expected for any other interim period or for the



full year. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2015, previously filed with the SEC. The condensed consolidated balance sheet as of December 31, 2015 included herein was derived from the audited consolidated financial statements as of that date, but does not include all disclosures including notes required by GAAP.

## **Reclassifications**

Except for the prior period reclassifications noted in our disclosure below in “Note 2— Significant Accounting Policies”, which resulted from our early adoption of ASU 2016-09 during the three months ended September 30, 2016, all other reclassifications made to conform the prior period to the current presentation were not material and had no net effect on our unaudited consolidated financial statements.

## **Accounting Estimates**

We use estimates and assumptions in the preparation of our unaudited condensed consolidated financial statements in accordance with GAAP. Our estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our unaudited condensed consolidated financial statements. These estimates and assumptions also affect the reported amount of net income or loss during any period. Our actual financial results could differ significantly from these estimates. The significant estimates underlying our unaudited condensed consolidated financial statements include: (i) recognition and recoverability of goodwill, intangible and other long-lived assets; (ii) accounting for income taxes; and (iii) stock-based compensation.

## **Seasonality**

Traveler expenditures in the global travel market tend to follow a seasonal pattern. As such, expenditures by travel advertisers to market to potential travelers, and, therefore, our financial performance, tend to be seasonal as well. As a result, our financial results tend to be seasonally highest in the third quarter of a year, as it is a key period for travel research and trip-taking, compared to the first and fourth quarters which represent seasonal low points. Further significant shifts in our business mix or adverse economic conditions could result in future seasonal patterns that are different from historical trends.

## **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

### **New Accounting Pronouncements Not Yet Adopted**

In October 2016, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance which requires an entity to recognize at the transaction date the income tax consequences of intercompany asset transfers. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In August 2016, the FASB issued new accounting guidance which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The new guidance specifically addresses the following cash flow topics in an effort to reduce diversity in practice: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon bonds; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued new accounting guidance on leases that is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs

incurred to obtain or fulfill a contract. In March 2016, the FASB issued additional guidance which clarifies principal versus agent considerations and in April 2016, the FASB issued further guidance which clarifies the identification of performance obligations and the implementation guidance for licensing. The updated guidance will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective approach or a modified retrospective approach, which requires the initial cumulative effect to be recognized at the date of initial application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and early adoption is permitted for fiscal years beginning after December 15, 2016. We have not yet selected a transition method and are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

### Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued new accounting guidance on stock compensation, or ASU 2016-09, which changes how companies account for certain aspects of stock-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance permits recognizing the impact of forfeitures on stock-based compensation as they occur or to recognize stock-based compensation expense net of expected forfeitures, requires companies to record excess tax benefits and tax deficiencies as income tax benefit or expense in the consolidated statement of operations when the awards vest or are settled, and eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the consolidated statement of cash flows.

We elected to early adopt the new guidance in the third quarter of 2016, which requires us to reflect any adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. The primary impact of adoption was the recognition of excess tax benefits and tax deficiencies in our provision for income taxes rather than additional paid-in capital for all periods in 2016. There was no impact to our provision for income taxes as previously reported for 2015. Additionally, our consolidated statement of cash flows now present excess tax benefits as an operating activity on a retrospective basis. As a result of the retrospective implementation of this guidance, the impact on the statement of cash flows for the nine months ended September 30, 2015 was an increase of \$32 million in cash flows from operating activities with an offsetting reduction in cash flows from financing activities. Finally, we have elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The net cumulative effect of this change was recognized as a \$1 million reduction to retained earnings as of January 1, 2016.

Adoption of the new guidance resulted in the recognition of net excess tax expense and benefit in our provision for income taxes rather than additional paid-in capital. As a result, we recorded \$1 million of income tax expense and \$2 million of income tax benefit for the three and nine months ended September 30, 2016, respectively, and impacted our previously reported quarterly results for the three months ended March 31, 2016 and June 30, 2016, as follows:

	<b>Three months ended March 31, 2016</b>	
	<b>As Reported</b>	<b>As Adjusted (1)(2)</b>
<b>(in millions, except per share data)</b>		
<b>Consolidated Statement of Operations:</b>		
Operating income	\$ 42	\$ 42
Provision for income taxes	(11)	(9)
Net income	27	29
Basic EPS	\$ 0.19	\$ 0.20
Diluted EPS	\$ 0.18	\$ 0.20
<b>Consolidated Statement of Cash Flows:</b>		
Net cash provided by operating activities	\$ 120	\$ 124
Net cash used in financing activities	\$ (94)	\$ (98)

	<b>Three months ended June 30, 2016</b>			
	<b>As Reported</b>		<b>As Adjusted (1)</b>	
	<b>(in millions, except per share data)</b>			
<b>Consolidated Statement of Operations:</b>				
Operating income	\$	48	\$	47
Provision for income taxes		(11)		(10)
Net income		34		34
Basic EPS	\$	0.23	\$	0.23
Diluted EPS	\$	0.23	\$	0.23
<b>Six months ended June 30, 2016</b>				
	<b>As Reported</b>		<b>As Adjusted (2)</b>	
	<b>(in millions)</b>			
<b>Consolidated Statement of Cash Flows:</b>				
Net cash provided by operating activities	\$	357	\$	363
Net cash used in financing activities	\$	(123)	\$	(129)

- (1) The election to account for forfeitures as they occur did not have a material impact for the three months ended March 31, 2016 and resulted in an increase to stock-based compensation expense of approximately \$1 million for the three months ended June 30, 2016.
- (2) Includes the reclassification of cash flows related to excess tax benefits from financing activities to operating activities of \$4 million and \$2 million for the three months ending March 31, 2016 and June 30, 2016, respectively.

In September 2015, the FASB issued new accounting guidance which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. The Company adopted this guidance in the first quarter of 2016. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued new accounting guidance which clarifies the accounting for fees paid by a customer in a cloud computing arrangement. This standard clarified whether a customer should account for a cloud computing arrangement as an acquisition of a software license or as a service arrangement by providing characteristics that a cloud computing arrangement must have in order to be accounted for as a software license acquisition. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for a cloud computing arrangement as a service contract. The company prospectively adopted this guidance in the first quarter of 2016. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

There have been no other material changes to our significant accounting policies since December 31, 2015. For additional information about our critical accounting policies and estimates, refer to "Note 2: Significant Accounting Policies", in the notes to our consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2015.

### NOTE 3: ACQUISITIONS

During the nine months ended September 30, 2016, we completed three acquisitions for total purchase price of \$27 million. The Company paid net cash consideration of \$22 million, which is net of \$3 million of cash acquired, and includes \$2 million in future holdback payments. The cash consideration was paid primarily from the U.S. We acquired 100% of the outstanding capital stock of the following companies: Tous Au Restaurant, a leading restaurant event week brand in France, purchased in January 2016; HouseTrip, a European-based vacation rental website, purchased in April 2016; and CityMaps, a social mapping platform, purchased in August 2016.

These business combinations were accounted for as purchases of businesses under the acquisition method. The fair value of purchase consideration has been preliminary allocated to tangible and identifiable intangible assets acquired and liabilities assumed, based on their estimated respective fair values on the acquisition date, with the remaining amount recorded to goodwill. Acquired goodwill represents the premium we paid over the fair value of the net tangible and intangible assets acquired. We paid a premium in each of these transactions for a number of reasons, including expected operational synergies, the assembled workforces, and the future development initiatives of the assembled workforces. The results of each of these acquired businesses have been included in the

unaudited condensed consolidated financial statements beginning on the respective acquisition dates. Pro-forma results of operations for these acquisitions have not been presented as the financial impact to our unaudited condensed consolidated financial statements, both individually and in aggregate, is not material. During the nine months ended September 30, 2016, acquisition-related costs of \$1 million were expensed as incurred and recorded in general and administrative expenses on our unaudited condensed consolidated statement of operations.

The purchase price allocation of our 2016 acquisitions is preliminary and subject to revision as more information becomes available, but in any case will not be revised beyond twelve months after the acquisition date and any change to the fair value of assets acquired or liabilities assumed will lead to a corresponding change to the purchase price allocable to goodwill in the period the adjustment is determined. The primary areas of the purchase price allocation that are not yet finalized are income tax-related balances for all 2016 acquisitions and the estimated fair value of certain identified intangible assets for CityMaps.

The following table presents the purchase price allocations initially recorded on our unaudited condensed consolidated balance sheet for all 2016 acquisitions (in millions):

	<b>Total</b>
Goodwill (1)	\$ 13
Intangible assets (2)	22
Net liabilities assumed (3)	(8)
Total purchase price consideration (4)	<u>\$ 27</u>

- (1) Acquired goodwill of \$10 million and \$3 million was allocated to our Hotel and Non-Hotel segment, respectively. All goodwill is not deductible for tax purposes.
- (2) Identifiable definite-lived intangible assets acquired during 2016 were comprised of trade names of \$4 million with a weighted average life of 10.0 years and technology and other of \$18 million with a weighted average life of 5.3 years. The overall weighted-average life of the identifiable definite-lived intangible assets acquired in the purchase of these businesses during 2016 was 6.3 years, and will be amortized on a straight-line basis over their estimated useful lives from acquisition date.
- (3) Includes cash acquired of \$3 million.
- (4) Subject to adjustment based on (i) final working capital adjustment calculations to be determined for CityMaps, and (ii) indemnification obligations for general representations and warranties of the acquired company stockholders.

#### NOTE 4: STOCK BASED AWARDS AND OTHER EQUITY INSTRUMENTS

##### Stock-Based Compensation Expense

The following table presents the amount of stock-based compensation expense related to stock-based awards on our unaudited condensed consolidated statements of operations during the periods presented:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Selling and marketing	\$ 5	\$ 4	\$ 15	\$ 12
Technology and content	11	8	30	20
General and administrative	6	7	19	20
Total stock-based compensation	22	19	64	52
Income tax benefit from stock-based compensation	(8)	(7)	(23)	(19)
Total stock-based compensation, net of tax effect	<u>\$ 14</u>	<u>\$ 12</u>	<u>\$ 41</u>	<u>\$ 33</u>

##### Stock-Based Award Activity and Valuation

###### 2016 Stock Option Activity

During the nine months ended September 30, 2016, we issued 1,050,842 of primarily service-based non-qualified stock options under the Company's Amended and Restated 2011 Stock and Annual Incentive Plan (the "2011 Plan"). These stock options have a term of ten years from the date of grant and generally vest equitably over a four-year requisite service period.

A summary of the status and activity for stock option awards relating to our common stock for the nine months ended September 30, 2016, is presented below:

	Options Outstanding (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding at January 1, 2016	5,720	\$ 53.71		
Granted	1,051	63.45		
Exercised (1)	(692)	31.43		
Cancelled or expired	(209)	71.14		
Options outstanding at September 30, 2016	<u>5,870</u>	\$ 57.46	5.7	\$ 70
Exercisable as of September 30, 2016	<u>2,794</u>	\$ 42.66	4.4	\$ 66

(1) Inclusive of 302,531 options which were not converted into shares due to net share settlement in order to cover the aggregate exercise price and required employee withholding taxes. Potential shares that had been convertible under stock options that were withheld under net share settlement remain in the authorized but unissued pool under the 2011 Plan and can be reissued by the Company. Total payments for the employees' tax obligations to the taxing authorities due to net share settlements are reflected as a financing activity within the unaudited condensed consolidated statements of cash flows.

Aggregate intrinsic value represents the difference between the closing stock price of our common stock and the exercise price of outstanding, in-the-money options. Our closing stock price as reported on The NASDAQ Global Select Market as of September 30, 2016 was \$63.18. The total intrinsic value of stock options exercised for the nine months ended September 30, 2016 and 2015 was \$23 million and \$128 million, respectively.

The fair value of stock option grants under the 2011 Plan has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Risk free interest rate	1.15%	1.67%	1.20%	1.52%
Expected term (in years)	5.17	5.24	4.85	5.21
Expected volatility	42.68%	40.24%	41.83%	41.76%
Expected dividend yield	— %	— %	— %	— %

The weighted-average grant date fair value of options granted was \$22.95 and \$33.24 for the nine months ended September 30, 2016 and 2015, respectively. The total fair value of stock options vested for the nine months ended September 30, 2016 and 2015 was \$27 million and \$30 million, respectively.

### 2016 RSU Activity

During the nine months ended September 30, 2016, we issued 1,886,536 RSUs under the 2011 Plan for which the fair value was measured based on the quoted price of our common stock on the date of grant. These RSUs generally vest over a four-year requisite service period.

The following table presents a summary of our RSU activity during the nine months ended September 30, 2016:

	RSUs Outstanding (in thousands)	Weighted Average Grant- Date Fair Value Per Share	Aggregate Intrinsic Value (in millions)
Unvested RSUs outstanding as of January 1, 2016	1,750	\$ 79.02	
Granted	1,887	63.96	
Vested and released (1)	(492)	74.12	
Cancelled or expired	(217)	73.60	
Unvested RSUs outstanding as of September 30, 2016	2,928	\$ 70.52	\$ 185

(1) Inclusive of 140,873 RSUs withheld to satisfy employee withholding tax requirements due to net share settlement. Potential shares which had been convertible under RSUs that were withheld under net share settlement remain in the authorized but unissued pool under the 2011 Plan and can be reissued by the Company. Total payments for the employees' tax obligations to the taxing authorities due to net share settlements are reflected as a financing activity within the unaudited condensed consolidated statements of cash flows.

#### **Unrecognized Stock-Based Compensation**

A summary of our remaining unrecognized stock-based compensation expense, unadjusted for estimated forfeitures, and the weighted average remaining amortization period at September 30, 2016 related to our non-vested stock options and RSU awards is presented below (in millions, except per year information):

	Stock Options	RSUs
Unrecognized compensation expense	\$ 57	\$ 163
Weighted average period remaining (in years)	2.4	2.9

#### **NOTE 5: EARNINGS PER SHARE**

##### **Basic Earnings Per Share Attributable to Common Stockholders**

We compute basic earnings per share ("Basic EPS") by dividing net income by the weighted average number of common shares outstanding during the period. We compute the weighted average number of common shares outstanding during the reporting period using the total of common stock and Class B common stock outstanding as of the last day of the previous year end reporting period plus the weighted average of any additional shares issued and outstanding less the weighted average of any treasury shares repurchased during the reporting period.

##### **Diluted Earnings Per Share Attributable to Common Stockholders**

We compute diluted earnings per share ("Diluted EPS") by dividing net income by the sum of the weighted average number of common and common equivalent shares outstanding during the period. We computed the weighted average number of common and common equivalent shares outstanding during the period using the sum of (i) the number of shares of common stock and Class B common stock used in the basic earnings per share calculation as indicated above, and (ii) if dilutive, the incremental weighted average common stock that we would issue upon the assumed exercise of outstanding common equivalent shares related to stock options and the vesting of restricted stock units using the treasury stock method, and (iii) if dilutive, performance based awards based on the number of shares that would be issuable as of the end of the reporting period assuming the end of the reporting period was also the end of the contingency period.

Under the treasury stock method, the assumed proceeds calculation includes the actual proceeds to be received from the employee upon exercise and the average unrecognized compensation cost during the period. The treasury stock method assumes that a company uses the proceeds from the exercise of an award to repurchase common stock at the average market price for the period.

Below is a reconciliation of the weighted average number of shares of common stock outstanding in calculating Diluted EPS (shares in thousands and dollars in millions, except per share amounts) for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
<b>Numerator:</b>				
Net income	\$ 55	\$ 74	\$ 119	\$ 195
<b>Denominator:</b>				
Weighted average shares used to compute Basic EPS	145,678	144,133	145,618	143,662
Weighted average effect of dilutive securities:				
Stock options	1,135	1,442	1,229	1,959
RSUs	404	253	314	265
Weighted average shares used to compute Diluted EPS	147,217	145,828	147,161	145,886
Basic EPS	\$ 0.38	\$ 0.51	\$ 0.82	\$ 1.35
Diluted EPS	\$ 0.37	\$ 0.51	\$ 0.81	\$ 1.34

The following potential common shares related to stock options and RSUs were excluded from the calculation of Diluted EPS (in thousands) because their effect would have been anti-dilutive for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
	2016(1)	2015(2)	2016(1)	2015(2)
Stock options	3,065	2,110	2,997	2,119
RSUs	691	303	753	629
Total	3,756	2,413	3,750	2,748

(1) These totals do not include 125,000 performance based options and 12,799 performance based RSUs representing the right to acquire 137,799 shares of common stock for which all targets required to trigger vesting had not been achieved; therefore, such awards were excluded from the calculation of weighted average shares used to compute Diluted EPS for those reporting periods.

(2) These totals do not include 66,666 performance based options and 12,799 performance based RSUs representing the right to acquire 79,465 shares of common stock for which all targets required to trigger vesting had not been achieved; therefore, such awards were excluded from the calculation of weighted average shares used to compute Diluted EPS for those reporting periods.

The earnings per share amounts are the same for common stock and Class B common stock because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

**NOTE 6: FINANCIAL INSTRUMENTS**

**Cash, Cash Equivalents and Marketable Securities**

The following tables show our cash and available-for-sale securities' amortized cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short and long-term marketable securities for the periods presented (in millions):

	September 30, 2016							
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities	
Cash	\$ 604	\$ -	\$ -	\$ 604	\$ 604	\$ -	\$ -	
Level 1:								
Money market funds	4	-	-	4	4	-	-	
Level 2:								
U.S. agency securities	25	-	-	25	-	24	1	
U.S. treasury securities	5	-	-	5	-	5	-	
Certificates of deposit	16	-	-	16	-	16	-	
Commercial paper	8	-	-	8	3	5	-	
Corporate debt securities	94	-	-	94	-	66	28	
Subtotal	148	-	-	148	3	116	29	
Total	<u>\$ 756</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 756</u>	<u>\$ 611</u>	<u>\$ 116</u>	<u>\$ 29</u>	
	December 31, 2015							
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities	
Cash	\$ 598	\$ -	\$ -	\$ 598	\$ 598	\$ -	\$ -	
Level 1:								
Money market funds	11	-	-	11	11	-	-	
Level 2:								
U.S. agency securities	13	-	-	13	-	9	4	
U.S. treasury securities	16	-	-	16	4	12	-	
Certificates of deposit	5	-	-	5	-	4	1	
Commercial paper	1	-	-	1	-	1	-	
Corporate debt securities	54	-	-	54	1	21	32	
Subtotal	89	-	-	89	5	47	37	
Total	<u>\$ 698</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 698</u>	<u>\$ 614</u>	<u>\$ 47</u>	<u>\$ 37</u>	

Our cash and cash equivalents consist of cash on hand in global financial institutions, money market funds and marketable securities with maturities of 90 days or less at the date purchased. The remaining maturities of our long-term marketable securities range from one to three years and our short-term marketable securities include maturities that were greater than 90 days at the date purchased and have 12 months or less remaining at September 30, 2016 and December 31, 2015, respectively.

We classify our cash equivalents and marketable securities within Level 1 and Level 2 as we value our cash equivalents and marketable securities using quoted market prices (Level 1) or alternative pricing sources (Level 2). The valuation technique we used to measure the fair value of money market funds were derived from quoted prices in active markets for identical assets or liabilities. Fair values for Level 2 investments are considered "Level 2" valuations because they are obtained from independent pricing sources for identical or comparable instruments, rather than direct observations of quoted prices in active markets. Our procedures include controls to ensure that appropriate fair values are recorded, including comparing the fair values obtained from our independent pricing services against fair values obtained from another independent source.



There were no material realized gains or losses related to sales of our marketable securities for the three and nine months ended September 30, 2016 and 2015, respectively. Realized gains and losses on the sale of securities are determined by specific identification of each security's cost basis. We consider any individual investments in an unrealized loss position to be temporary in nature and do not consider any of our investments other-than-temporarily impaired as of September 30, 2016.

## Derivative Financial Instruments

In certain circumstances, we enter into foreign currency forward exchange contracts ("forward contracts") to reduce the effects of fluctuating foreign currency exchange rates on our cash flows denominated in foreign currencies. We do not use derivatives for trading or speculative purposes.

Our current forward contracts are not designated as hedges and have current maturities of less than 90 days. We account for our derivative instruments as either assets or liabilities and carry them at fair value. Consequently, any gain or loss resulting from the change in fair value was recognized in our unaudited condensed consolidated statements of operations. All gains and losses for the three months ended September 30, 2016 were not material. We recorded a net loss of \$1 million for the nine months ended September 30, 2016, related to our settled and outstanding forward contracts in our unaudited condensed consolidated statements of operations in "Interest income and other, net." We recorded a net loss of \$1 million and a net gain of \$1 million for the three and nine months ended September 30, 2015, respectively, related to our settled and outstanding forward contracts in our unaudited condensed consolidated statements of operations in "Interest income and other, net."

The following table shows the notional principal amounts of our outstanding derivative instruments that are not designated as hedging instruments for the periods presented:

	September 30, 2016	December 31, 2015
	(in millions)	
Foreign exchange-forward contracts (1), (2)	\$ 7	\$ 25

(1) Derivative contracts address foreign exchange fluctuations for the Euro versus the U.S. Dollar.

(2) The fair value of our derivatives are not material for all periods presented and are reported as an asset in prepaid expenses and other current assets on our unaudited consolidated balance sheet. We measure the fair value of our outstanding or unsettled derivatives using Level 2 fair value inputs, as we use a pricing model that takes into account the contract terms as well as current foreign currency exchange rates in active markets.

Counterparties to currency exchange derivatives consist of major international financial institutions. We monitor our positions and the credit ratings of the counterparties involved and, by policy limits, the amount of credit exposure to any one party. While we may be exposed to potential losses due to the credit risk of non-performance by these counterparties, losses are not anticipated and any credit risk amounts associated with our outstanding or unsettled derivative instruments are deemed not to be material for any period presented.

## Other Financial Instruments

Other financial instruments not measured at fair value on a recurring basis include trade receivables, trade payables, deferred merchant payables, short-term debt, accrued and other current liabilities and long-term debt. With the exception of long-term debt, the carrying amount approximates fair value because of the short maturity of these instruments as reported on our unaudited condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015, respectively. The carrying value of the long-term debt from our 2015 Credit Facility bears interest at a variable rate and therefore is also considered to approximate fair value.

We did not have any Level 3 assets or liabilities at September 30, 2016 and December 31, 2015.

## NOTE 7: DEBT

The Company's outstanding debt consisted of the following for the periods presented:

	September 30, 2016	December 31, 2015
	(in millions)	
<b>Short-Term Debt:</b>		
Chinese Credit Facilities	\$ 3	\$ 1
2016 Credit Facility	73	-
Total Short-Term Debt	<u>\$ 76</u>	<u>\$ 1</u>
<b>Long-Term Debt:</b>		
2015 Credit Facility	\$ 20	\$ 200
Total Long-Term Debt	<u>\$ 20</u>	<u>\$ 200</u>

### 2011 Credit Facility

On December 20, 2011, we entered into a credit agreement (the "2011 Credit Facility"), which provided \$600 million of borrowing including:

- a term loan facility in an aggregate principal amount of \$400 million with a term of five years due December 2016 ("Term Loan"); and
- a revolving credit facility in an aggregate principal amount of \$200 million available in U.S. dollars, Euros and British pound sterling with a term of five years expiring December 2016.

On June 26, 2015, the entire outstanding principal on our Term Loan in the amount of \$290 million was repaid with borrowings from our 2015 Credit Facility (described below) and the 2011 Credit Facility was subsequently terminated. During the nine months ended September 30, 2015, we recorded total interest and commitment fees on our 2011 Credit Facility of \$3 million to interest expense on our unaudited condensed consolidated statements of operations. There was no resulting loss on early extinguishment of this debt.

### 2015 Credit Facility

On June 26, 2015, we entered into a five year credit agreement (the "2015 Credit Facility") and immediately borrowed \$290 million. The 2015 Credit Facility, among other things, provides for (i) a \$1 billion unsecured revolving credit facility, (ii) an interest rate on borrowings and commitment fees based on the Company's and its subsidiaries' consolidated leverage ratio; and (iii) uncommitted incremental revolving loan and term loan facilities, subject to compliance with a leverage covenant and other conditions. Any overdue amounts under or in respect of the 2015 Credit Facility not paid when due shall bear interest at (i) in the case of principal, the applicable interest rate plus 2.00% per annum, (ii) in the case of interest denominated in Sterling or Euro, the applicable rate plus 2.00% per annum; and (iii) in the case of interest denominated in US Dollars, 2.00% per annum plus the Alternate Base Rate plus the interest rate spread applicable to ABR loans. The Company may borrow from the 2015 Credit Facility in U.S dollars, Euros and British pound sterling with a term of five years expiring June 26, 2020.

There is no specific repayment date prior to the five-year maturity date for our outstanding borrowings under the 2015 Credit Facility. During the nine months ended September 30, 2016, the Company borrowed an additional \$10 million and repaid \$190 million of our outstanding borrowings on the 2015 Credit Facility. Based on the Company's current leverage ratio, our borrowings bear interest at LIBOR plus 125 basis points, or the Eurocurrency Spread. The Company is currently borrowing under a one-month interest period of 1.8% per annum, using a one-month interest period Eurocurrency Spread, which will reset periodically. Interest will be payable on a monthly basis while the Company is borrowing under the one-month interest rate period.

We are also required to pay a quarterly commitment fee, on the daily unused portion of the revolving credit facility for each fiscal quarter and fees in connection with the issuance of letters of credit. Unused revolver capacity is currently subject to a commitment fee of 20.0 basis points, given the Company's current leverage ratio. The 2015 Credit Facility includes \$15 million of borrowing capacity available for letters of credit and \$40 million for borrowings on same-day notice. As of September 30, 2016, we had issued \$2 million of outstanding letters of credit under the 2015 Credit Facility.

During the three and nine months ended September 30, 2016, we recorded total interest and commitment fees on our 2015 Credit Facility of \$1 million and \$3 million, respectively, to interest expense on our unaudited condensed consolidated statements of operations. During the three and nine months ended September 30, 2015, respectively, total interest and commitment fees recorded

under our 2015 Credit Facility to interest expense on our unaudited condensed consolidated statements of operations were not material. Unpaid interest and commitment fees as of September 30, 2016 and December 31, 2015, were not material.

We may voluntarily repay any outstanding borrowing under the 2015 Credit Facility at any time without premium or penalty, other than customary breakage costs with respect to Eurocurrency loans. Certain wholly-owned domestic subsidiaries of the Company have agreed to guarantee the Company's obligations under the 2015 Credit Facility.

The 2015 Credit Facility contains a number of covenants that, among other things, restrict our ability to: incur additional indebtedness, create liens, enter into sale and leaseback transactions, engage in mergers or consolidations, sell or transfer assets, pay dividends and distributions, make investments, loans or advances, prepay certain subordinated indebtedness, make certain acquisitions, engage in certain transactions with affiliates, amend material agreements governing certain subordinated indebtedness, and change our fiscal year. The 2015 Credit Facility also requires us to maintain a maximum leverage ratio and contains certain customary affirmative covenants and events of default, including a change of control. If an event of default occurs, the lenders under the 2015 Credit Facility will be entitled to take various actions, including the acceleration of all amounts due under the 2015 Credit Facility. As of September 30, 2016, we are in compliance with all of our debt covenants.

## **2016 Credit Facility**

On September 7, 2016, we entered into an uncommitted facility agreement with Bank of America Merrill Lynch International Limited (the "Lender"), which provides for a \$73 million unsecured revolving credit facility (the "2016 Credit Facility") with no specific expiration date. The 2016 Credit Facility is available at the Lender's absolute discretion and can be canceled at any time. Repayment terms for borrowings under the 2016 Credit Facility are generally one to six month periods and bear interest at LIBOR plus 112.5 basis points. The Company may borrow from the 2016 Credit Facility in U.S dollars only and we may voluntarily repay any outstanding borrowing at any time without premium or penalty. Any overdue amounts under or in respect of the 2016 Credit Facility not paid when due shall bear interest in the case of principal at the applicable interest rate plus 1.50% per annum. In connection with the 2016 Credit Facility, any lender fees and debt financing costs paid were not material. In addition, TripAdvisor, LLC, a wholly-owned domestic subsidiary of the Company, has agreed to guarantee the Company's obligations under the 2016 Credit Facility. There are no specific financial or incurrence covenants.

We borrowed \$73 million from this uncommitted credit facility in September 2016. These funds were used towards general working capital needs of the Company, primarily for partial repayment of our long term debt, and the liability is recorded in short-term liabilities on our unaudited condensed consolidated balance sheet as of September 30, 2016. The Company is currently borrowing under a one-month interest period of 1.7% per annum, which will reset periodically. Interest will be payable on a monthly basis while the Company is borrowing under the one-month interest rate period. During the three and nine months ended September 30, 2016, total interest recorded with respect to our 2016 Credit Facility to interest expense on our unaudited condensed consolidated statement of operations was not material.

## **Chinese Credit Facilities**

In addition to our borrowings under the 2015 Credit Facility and 2016 Credit Facility, we maintain two credit facilities in China (jointly, the "Chinese Credit Facilities"). As of September 30, 2016 and December 31, 2015, we had short-term borrowings outstanding of \$3 million and \$1 million, respectively.

We are parties to a \$30 million, one-year revolving credit facility with Bank of America (the "Chinese Credit Facility—BOA") that is currently subject to review on a periodic basis with no specific expiration period. Our Chinese Credit Facility—BOA currently bears interest at a rate based on 100% of the People's Bank of China's base rate, which was 4.35% as of September 30, 2016. As of September 30, 2016, we had \$1 million of outstanding borrowings from the Chinese Credit Facility—BOA.

We are also parties to a RMB 70,000,000 (approximately \$11 million), one-year revolving credit facility with J.P. Morgan Chase Bank ("Chinese Credit Facility—JPM") which was reduced from RMB 125,000,000 during the three months ended September 30, 2016. Our Chinese Credit Facility—JPM currently bears interest at a rate based on 100% of the People's Bank of China's base rate, which was 4.35% as of September 30, 2016. As of September 30, 2016, we had \$2 million of outstanding borrowings from the Chinese Credit Facility—JPM.

## **NOTE 8: INCOME TAXES**

Each interim period is considered an integral part of the annual period and, accordingly, we measure our tax expense using an estimated annual effective tax rate. An enterprise is required, at the end of each interim reporting period, to make its best estimate of

the annual effective tax rate for the full fiscal year and use that rate to provide for income taxes on a current year-to-date basis, as adjusted for discrete taxable events that occur during the interim period.

Our effective tax rate for the three and nine months ended September 30, 2016 was 12.7% and 18.5%, respectively. Our effective tax rate for the three and nine months ended September 30, 2015 was 24.5% and 26.4%, respectively. For both the three and nine months periods ended September 30, 2016, the effective tax rate is less than the federal statutory rate primarily due to earnings in jurisdictions outside the United States, where our effective tax rate is lower, increased research and development tax credits, and the recognition of net excess tax benefits related to stock-based payments resulting from the adoption of new accounting guidance for share-based compensation as of January 1, 2016, as described in “Note 2: Significant Accounting Policies.” These same drivers also resulted in a decrease in the effective tax rate for the three and nine months ended September 30, 2016, when compared to same periods in 2015.

Our policy is to recognize accrued interest and penalties related to unrecognized tax benefits and income tax liabilities as part of our income tax expense. As of September 30, 2016, accrued interest is \$5 million, net of federal tax benefit, and no penalties have been accrued. We do not anticipate any material releases in the next twelve months.

By virtue of previously filed consolidated income tax returns filed with Expedia, we are currently under an Internal Revenue Service (“IRS”) audit for the 2009 and 2010 tax years, and have various ongoing state income tax audits. We are separately under examination by the IRS for the 2012 and 2013 tax years and have an employment tax audit with the IRS for the 2013 and 2014 tax years. These audits include questioning of the timing and the amount of income and deductions and the allocation of income among various tax jurisdictions. These examinations may lead to proposed adjustments to our taxes. We are no longer subject to tax examinations by tax authorities for years prior to 2008. As of September 30, 2016, no material assessments have resulted.

During the year ended December 31, 2015, we received notification of a draft proposed adjustment from the IRS for the 2009 and 2010 tax years and we anticipate receiving additional notices of proposed adjustments for the same years. These proposed adjustments are related to transfer pricing with our foreign subsidiaries, and would result in an increase to U.S. taxable income and federal tax expense for 2009 and 2010, subject to interest. Our policy is to review and update tax reserves as facts and circumstances change. Based on our interpretation of the regulations and available case law, we believe the position we have taken with regard to transfer pricing with our foreign subsidiaries is sustainable. We intend to defend our position through IRS administrative and, if necessary, judicial remedies. As of September 30, 2016, no additional adjustments have been proposed.

In July 2015, the United States Tax Court (the “Court”) issued an opinion favorable to Altera Corporation (“Altera”) with respect to Altera’s litigation with the IRS. This opinion was submitted as a final decision under Tax Court Rule 155 during December 2015. The litigation relates to the treatment of stock-based compensation expense in an inter-company cost-sharing arrangement with Altera’s foreign subsidiary. In its opinion, the Court accepted Altera’s position of excluding stock based compensation from its inter-company cost-sharing arrangement. The IRS appealed the Court decision on February 19, 2016. At this time, the U.S. Department of the Treasury has not withdrawn the requirement from its regulations to include stock-based compensation in intercompany cost-sharing arrangements. The Company recorded a tax benefit of \$13 million in its consolidated statement of operations for the year ended December 31, 2015 and an additional \$3 million and \$5 million during the three and nine months ended September 30, 2016, respectively. The Company will continue to monitor this matter and related potential impacts to its consolidated financial statements.

#### NOTE 9: ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following for the periods presented:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
	(in millions)	
Accrued salary, bonus, and related benefits	\$ 47	\$ 47
Accrued marketing costs	40	43
Other	39	33
Total	<u>\$ 126</u>	<u>\$ 123</u>

#### NOTE 10: STOCKHOLDERS’ EQUITY

On February 15, 2013, our Board of Directors authorized the repurchase of \$250 million of our shares of common stock under a share repurchase program. The repurchase program has no expiration but may be suspended or terminated by the Board of Directors at any time. Our Board of Directors will determine the price, timing, amount and method of such repurchases based on its evaluation of market conditions and other factors, and any shares repurchased will be in compliance with applicable legal requirements, at prices determined to be attractive and in the best interests of both the Company and its stockholders.

During the nine months ended September 30, 2016, we repurchased 350,399 shares of outstanding common stock under the share repurchase program at an aggregate cost of \$21 million, or an average share price of \$59.85. As of September 30, 2016, we have repurchased 2,471,108 shares of outstanding common stock under the share repurchase program at an aggregate cost of \$166 million. As of September 30, 2016, we have a remaining amount from the authorized share repurchase program granted by the Board of Directors of \$84 million to repurchase shares of our common stock.

#### **NOTE 11: COMMITMENTS AND CONTINGENCIES**

There have been no material changes to our commitments and contingencies since December 31, 2015. Refer to “Note 12: Commitments and Contingencies,” in the notes to our consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2015.

##### **Legal Proceedings**

In the ordinary course of business, we are parties to regulatory and legal matters arising out of our operations. These matters may involve claims involving alleged infringement of third-party intellectual property rights (including patent infringement), defamation, taxes, regulatory compliance, privacy issues and other claims. Periodically, we review the status of all significant outstanding matters to assess any potential financial exposure. When (i) it is probable that an asset has been impaired or a liability has been incurred and (ii) the amount of the loss can be reasonably estimated, we record the estimated loss in our consolidated statements of operations. We provide disclosures in the notes to the consolidated financial statements for loss contingencies that do not meet both of these conditions if there is a reasonable probability that a loss may have been incurred and whether such loss is reasonably estimable. We base accruals made on the best information available at the time which can be highly subjective. Although occasional adverse decisions or settlements may occur, the Company does not believe that the final disposition of any of these matters will have a material adverse effect on the business. However, the final outcome of these matters could vary significantly from our estimates. Finally, there may be claims or actions pending or threatened against us of which we are currently not aware and the ultimate disposition of which could have a material adverse effect on us.

##### **Income Taxes**

We are also under audit by the IRS and various other domestic and foreign tax authorities with regards to income tax matters. We have reserved for potential adjustments to our provision for income taxes that may result from examinations by, or any negotiated agreements with, these tax authorities. Although we believe our tax estimates are reasonable, the final determination of audits could be materially different from our historical income tax provisions and accruals. The results of an audit could have a material effect on our financial position, results of operations, or cash flows in the period for which that determination is made.

Additionally, we earn an increasing portion of our income, and accumulate a greater portion of cash flows, in foreign jurisdictions which we consider indefinitely reinvested. Any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates and incremental cash tax payments. In addition, there have been proposals to amend U.S. tax laws that would significantly impact the manner in which U.S. companies are taxed on foreign earnings. Although we cannot predict whether or in what form any legislation will pass, if enacted, it could have a material adverse impact on our U.S. tax expense and cash flows. See “Note 8: Income Taxes” above for further information on potential contingencies surrounding income taxes.

#### **NOTE 12: SEGMENT INFORMATION**

Our reporting structure includes two reportable segments: Hotel and Non-Hotel.

##### **Hotel**

Our Hotel segment includes revenue generated from services related to hotels, including click-based advertising revenue from making hotel room night reservations available for price comparison and commission-based transactions via our instant booking feature, as well as display-based advertising, subscription-based hotel advertising (or Business Listings), room reservations sold through our websites, and from content licensing. Our Hotel segment also includes click-based advertising revenue from making airline reservations and cruise reservations available for price comparison and booking. Our chief operating decision maker is also the Hotel segment manager.

##### **Non-Hotel**

Our Non-Hotel segment consists of the aggregation of three operating segments, our Attractions, Restaurants and Vacation Rentals businesses.

*Attractions.* We provide, primarily through Viator, information and services for researching and booking destination activities around the world. Viator works with local operators to provide travelers with access to tours and activities in popular destinations worldwide, earning a commission for such service. In addition to its consumer-direct business, Viator also provides local experiences to affiliate partners, including some of the world's top airlines, hotels and travel agencies.

*Restaurants.* We have several websites that provide online and mobile reservation services that connect restaurants with diners. These websites are currently primarily focused on the European and Australian markets, primarily through thefork.com (including www.lafourchette.com, www.eltenedor.com, www.iens.nl, www.besttables.com, and www.dimmi.com.au). Thefork.com is an online restaurant booking platform with a network of restaurant partners primarily across Europe and Australia. Thefork.com also helps restaurants to maximize business by providing a flexible online booking and data tool. We generate revenue primarily by charging a fee for each restaurant guest seated through the online reservation systems.

*Vacation Rentals.* We offer individual property owners and property managers the ability to list their properties available for rental and connect with travelers using a subscription-based fee structure or a free-to-list, commission-based option. Our vacation rental inventory currently includes full home rentals, condos, villas, beach rentals, cabins and cottages. These properties are listed across a number of platforms, including TripAdvisor Vacation Rentals, U.S.-based FlipKey and Vacation Home Rentals, and European-based Holiday Lettings, HouseTrip, and Niumba businesses.

Each operating segment in our Non-Hotel segment has a segment manager who is directly accountable to and maintains regular contact with our chief operating decision maker to discuss operating activities, financial results, forecasts, and plans for the segment.

Adjusted EBITDA is our segment profit measure and a key measure used by our management and board of directors to understand and evaluate the operating performance of our business and on which internal budgets and forecasts are based and approved. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. We define Adjusted EBITDA as net income (loss) plus: (1) provision for income taxes; (2) other income (expense), net; (3) depreciation of property and equipment, including amortization of internal use software and website development; (4) amortization of intangible assets; (5) stock-based compensation and other stock-settled obligations; (6) goodwill, long-lived asset and intangible asset impairments; and (7) non-recurring expenses and income.

The following tables present our segment information for the three and nine months ended September 30, 2016 and 2015, and includes a reconciliation of Adjusted EBITDA to Net Income, the most directly comparable financial measure calculated and presented in accordance with GAAP. We record depreciation of property and equipment, including amortization of internal-use software and website development, amortization of intangible assets, stock-based compensation and other stock-settled obligations, other income (expense), net, other non-recurring expenses and income, net, and income taxes, which are excluded from segment operating performance, in corporate and unallocated. In addition, we do not report our assets, capital expenditures and related depreciation expense by segment as our chief operating decision maker does not evaluate operating segments using this information. We also do not regularly provide such information by segment to our chief operating decision maker. Our consolidated general and administrative expenses, excluding stock-based compensation costs, are shared by all operating segments. Each operating segment receives an allocated charge based on the segment's percentage of the Company's total personnel costs.

	Three months ended September 30, 2016			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	\$ 320	\$ 101	\$ -	\$ 421
Adjusted EBITDA (1)	99	15	-	114
Depreciation			(18)	(18)
Amortization of intangible assets			(8)	(8)
Stock-based compensation			(22)	(22)
Operating income (loss)				66
Other expense, net				(3)
Income before income taxes				63
Provision for income taxes				(8)
Net income				\$ 55

	Three months ended September 30, 2015			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	\$ 340	\$ 75	\$ -	\$ 415
Adjusted EBITDA (2)	121	9	-	130
Depreciation			(13)	(13)
Amortization of intangible assets			(10)	(10)
Stock-based compensation			(19)	(19)
Operating income (loss)				88
Other income, net				10
Income before income taxes				98
Provision for income taxes				(24)
Net income				\$ 74

	Nine months ended September 30, 2016			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	\$ 939	\$ 225	\$ -	\$ 1,164
Adjusted EBITDA (1)	309	(15)	-	294
Depreciation			(51)	(51)
Amortization of intangible assets			(23)	(23)
Stock-based compensation			(64)	(64)
Operating income (loss)				156
Other expense, net				(10)
Income before income taxes				146
Provision for income taxes				(27)
Net income				\$ 119

	Nine months ended September 30, 2015			
	Hotel	Non-Hotel	Corporate and Unallocated	Total
	(in millions)			
Revenue	\$ 1,003	\$ 180	\$ -	\$ 1,183
Adjusted EBITDA (2)	377	2	-	379
Depreciation			(42)	(42)
Amortization of intangible assets			(26)	(26)
Stock-based compensation			(52)	(52)
Other non-recurring expenses			(2)	(2)
Operating income (loss)				257
Other income, net				8
Income before income taxes				265
Provision for income taxes				(70)
Net income				\$ 195

- (1) Includes allocated general and administrative expenses in our Hotel segment of \$21 million and \$63 million; and in our Non-Hotel segment of \$10 million and \$28 million for the three and nine months ended September 30, 2016, respectively.
- (2) Includes allocated general and administrative expenses in our Hotel segment of \$23 million and \$69 million; and in our Non-Hotel segment of \$8 million and \$23 million for the three and nine months ended September 30, 2015, respectively.

### NOTE 13: RELATED PARTY TRANSACTIONS

We consider Liberty TripAdvisor Holdings, Inc. (“LTRIP”) a related party. As of September 30, 2016, LTRIP beneficially owned 18,159,752 shares of our common stock and 12,799,999 shares of our Class B common stock, which shares constitute 13.7% of the outstanding shares of common stock and 100% of the outstanding shares of Class B common stock. Assuming the conversion of all of LTRIP’s shares of Class B common stock into common stock, LTRIP would beneficially own 21.3% of the outstanding common stock. Because each share of Class B common stock generally is entitled to ten votes per share and each share of common

stock is entitled to one vote per share, LTRIP may be deemed to beneficially own equity securities representing approximately 56.0% of our voting power.

We had no related party transactions with LTRIP during the three and nine months ended September 30, 2016 and 2015.

**NOTE 14: INTEREST INCOME AND OTHER, NET**

The following table presents the detail of interest income and other, net, for the periods presented:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	<u>(in millions)</u>		<u>(in millions)</u>	
Net loss, realized and unrealized, on foreign exchange and foreign currency derivative contracts and other, net	\$ -	\$ (4)	\$ (1)	\$ (3)
Interest income	-	-	1	1
Gain on sale of business (1)	-	17	-	17
Total	<u>\$ -</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ 15</u>

- (1) In August 2015, we sold 100% interest in one of our Chinese subsidiaries to an unrelated third party for \$28 million in cash consideration and recognized a \$17 million gain on sale of subsidiary in the third quarter of 2015.



## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The information included in this Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes included in this Quarterly Report on Form 10-Q, and the consolidated financial statements and accompanying notes, as well as Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the views of our management regarding current expectations and projections about future events and are based on currently available information. Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, but not limited to, those discussed in our Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2016, Part II, Item 1A, “Risk Factors.” Other unknown or unpredictable factors also could have a material adverse effect on our business, financial condition and results of operations. Accordingly, readers should not place undue reliance on these forward-looking statements. The use of words such as “anticipates,” “estimates,” “expects,” “intends,” “plans” and “believes,” among others, generally identify forward-looking statements; however, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. We are not under any obligation to, and do not intend to, publicly update or review any of these forward-looking statements, whether as a result of new information, future events or otherwise, even if experience or future events make it clear that any expected results expressed or implied by those forward-looking statements will not be realized. Please carefully review and consider the various disclosures made in this report and in our other reports filed with the SEC that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

### Overview

TripAdvisor, Inc., by and through its subsidiaries, owns and operates a portfolio of leading online travel brands. TripAdvisor, our flagship brand, is the world’s largest travel site, and our mission is to help people around the world plan and book the perfect trip. We accomplish this by, among other things, aggregating millions of travelers’ reviews and opinions about destinations, accommodations, activities and attractions, and restaurants throughout the world so that our users have access to trusted advice wherever their trips take them. Our platform helps users plan their trips with our unique user-generated content and enables users to compare real-time pricing and availability so that they can book hotels, flights, cruises, vacation rentals, activities and attractions, and restaurant reservations.

Our TripAdvisor-branded websites include tripadvisor.com in the United States and localized versions of the TripAdvisor website in 47 markets worldwide. Our TripAdvisor-branded websites reached 390 million average monthly unique visitors during the quarter ended September 30, 2016, according to our internal log files. We currently feature 435 million reviews and opinions on 6.8 million places to stay, places to eat and things to do – including 1,050,000 hotels and accommodations and 830,000 vacation rentals, 4.2 million restaurants and 730,000 attractions around the world. In addition to user-generated content, our websites feature price comparison tools and links to partner websites, including travel advertisers, on which users can book their travel arrangements. Users can also complete hotel bookings directly with our partners through tripadvisor.com and also through the TripAdvisor mobile application where coverage is available. In addition to the flagship TripAdvisor brand, we now manage and operate 24 other travel media brands, connected by the common goal of providing users the most comprehensive travel-planning and trip-taking resources in the travel industry.

### Executive Summary and Trends

As the largest online travel website, we believe we are an attractive marketing channel for advertisers—including hotel chains, independent hoteliers, online travel agencies, destination marketing organizations, and other travel-related and non-travel related product and service providers— who seek to sell their products and services to our large user base. The key drivers of our financial results are described below, including a summary of our key growth areas and current trends impacting our business, including our reportable segments.

### Key Growth Areas

We continue to invest in areas of potential growth, including our content and community, product innovation, and expansion into international markets and adjacent businesses.

*Content & Community.* TripAdvisor is a website on which travelers can, among other things, research content and share their travel experiences with the rest of the world. Establishing and nurturing a sense of community among users and brand loyalty is a key priority and a competitive advantage for TripAdvisor. As a result, we continue to look for ways to make it easier for users to plan and book their perfect trip on TripAdvisor as well as to share their experiences.

*Mobile.* Innovating and improving our mobile products is a key priority. During the three months ended September 30, 2016, more than half of our average monthly unique visitors came from mobile phone and tablet, and average monthly unique visitors via mobile phone and tablet devices grew 19% year-over-year, according to our log files. We anticipate that the rate of growth in mobile visitors will continue to exceed the growth rate of our overall monthly unique visitors, and that an increasing proportion of users will use mobile devices to access the full range of services available on our sites. We are investing significant resources to improve the features, functionality and commercialization of our mobile websites and applications.

*Instant Booking.* Instant booking is a feature that enables users to book a hotel reservation directly with a hotel or online travel agency (“OTA”) partner, while remaining on the TripAdvisor website. We believe that allowing users to book directly online without leaving our TripAdvisor websites will result in a better user experience as well as, ultimately, generate additional revenue to the Company. As a result, beginning in June 2014, we gradually rolled this feature out in the U.S. and, in 2015, accelerated the rollout for hotels across our U.S. and U.K. platforms to all users on all devices. In 2016, we continued to roll out instant booking to additional countries and, as of June 30, 2016, completed our global rollout on all devices. Our business success depends in large part on our ability to maintain and expand relationships with our partners in the travel industry. These partners power the instant booking feature on our website and, we believe, will benefit from this feature through increased reservations and more direct relationships with travelers.

*International Expansion.* We are focused on strengthening our broad global footprint as we believe that penetrating international markets represents a long-term opportunity for us. We continue to improve localization and grow our user base in Europe, Asia and South America, especially in emerging markets such as Brazil, Russia and China, including a lead product offering in the Chinese market—Mao Tu Ying (or TripAdvisor China) — headquartered in Beijing.

*Attractions, Restaurants and Vacation Rentals.* TripAdvisor has information and user-generated content on 4.2 million restaurants and 730,000 attractions around the world. As a significant percentage of our users come to our websites for this content but are not hotel shoppers, we believe TripAdvisor has a unique opportunity to monetize its community of these non-hotel shoppers looking for places to eat and things to do. With the acquisitions of our online restaurant reservation businesses, and Viator for online bookable tours and attractions, we are attempting to match more users with more businesses. In addition, we provide access to vacation rentals to our users by offering individual property owners and property managers the ability to list their properties using a free-to-list, commission-based structure or a subscription-based fee option. We believe our highly-engaged and motivated user community creates a competitive advantage for us in this market. In the nine months ended September 30, 2016, Vacation Rental property listings grew 12% to 830,000 properties, primarily driven by strong listings growth in our free-to-list model.

## **Current Trends Affecting Our Business**

There are a number of trends that affect our business. The following are some examples:

*Continued Shift to Online Travel and Social Media to Access Travel Information.* According to Phocuswright, global travel spending is expected to be greater than \$1.3 trillion in 2016. Travel related commerce, information and advertising continue to migrate to the Internet and away from traditional media outlets. For example, consumers are increasingly using online social media channels, such as Facebook and Twitter, as a means to communicate and exchange information, including travel information and opinions. We believe this trend will continue to create strategic growth opportunities, allowing us to attract new consumers and develop unique and effective advertising solutions. Over the years, we have made significant progress using social networking to leverage the expanding use of these channels and enhance traffic diversification and user engagement.

We believe that the Internet will continue to become even more integral to the travel-planning process due to increasing worldwide online penetration, particularly given the capabilities that the Internet provides travelers, including the ability to refine searches, compare destinations, view real-time pricing, complete bookings, and access information while in-destination. We will continue to adapt our user experience in response to a changing Internet environment and usage trends.

*Increasing Competition.* The travel planning industry and, more generally, the business of collecting and aggregating travel-related resources and information as well as enabling consumers to purchase travel-related products, continues to be increasingly competitive. There are an increasing number of companies who collect and aggregate travel information and resources and enable consumers to plan and book travel. These include search companies, such as Google, Inc. and Baidu.com, Inc.; large and increasingly consolidating online travel agencies, or OTAs (such as Expedia and Priceline and their respective subsidiaries); as well as companies such as Airbnb, Inc. and Alibaba. We plan to continue to invest in order to remain the leading source of travel reviews as well as to

continue to enhance our user experience. For further description of our competition see Item 1. “Business”, in our Annual Report on Form 10-K for the year ended December 31, 2015.

*Implementation of Instant Booking Strategy.* With our rollout of instant booking feature completed, we continue to work to streamline our booking path to optimize the user experience, seek partners with strong branding and supply channels in order to achieve higher conversion rates and repeat hotel bookings, persistently promote the TripAdvisor brand as the place to plan, compare prices, and book travel and develop additional opportunities to engage with our users, and establish our brand as a preferred booking site.

Hotel revenue from our instant booking feature is included in our TripAdvisor-branded click-based advertising and transaction revenue in our Hotel Segment. Our instant booking feature has monetized at a lower revenue per hotel shopper rate than our metasearch feature, or click-based advertising revenue, and therefore has been dilutive to our overall financial results to date, however, we believe that the improved user experience will ultimately drive more value for our partners and increase monetization on our platform. In addition, our instant booking revenue recorded under the consumption model is recognized at the time the traveler consumes, or completes, the stay. Comparatively, revenue generated from our metasearch feature, or click-based advertising revenue, is recorded when a traveler makes the click-through to the travel partners’ websites, even if the traveler does not book during that search. Based on our internal data, we estimate the average time between a user booking a stay to consuming a stay is approximately three to five weeks, and is subject to seasonal variations. In future periods, greater contribution from our instant booking consumption model to TripAdvisor-branded click-based and transaction revenue could result in additional revenue recognized at the time of a consumed stay and therefore a shift in the timing of our revenue recognition.

*Evolution of the End to End Travel Experience.* We believe our role in the overall travel experience continues to grow in importance in the travel industry, as we emphasize to travelers that we are the place to come plan, compare prices and book their trip. Our websites globally reached 390 million average monthly unique visitors during the three months ended September 30, 2016, according to our internal log files. With 435 million reviews and opinions on 6.8 million places to stay, places to eat and things to do – including 1,050,000 hotels and accommodations and 830,000 vacation rentals, 4.2 million restaurants and 730,000 attractions in 175,000 destinations throughout the world - we believe we have the best content in the travel industry for research and travel planning decision-making. When combined with our hotel metasearch capabilities to compare and find the best prices; our instant booking feature, allowing users to book their hotels on all devices directly on our website; and, subsequent to their trip, the ability to submit a traveler review, TripAdvisor provides an end to end travel experience.

*Growth in Mobile Phone and Other Handheld Devices.* To access the internet, users are increasingly using devices other than desktop computers, including mobile phones and handheld computers such as notebooks and tablets. To address these growing user demands, we continue to extend our platform to develop mobile phone and tablet applications to deliver travel information and resources. Although the substantial majority of our mobile phone users also access and engage with our websites on personal computers and tablets where we offer display advertising, our users could decide to access our products primarily through mobile phone devices. We offer display graphic advertising on mobile phones; however, our mobile phone monetization strategies are still developing. At present, mobile phone monetization is significantly less than desktop and tablet monetization. Mobile phone growth and development remains a key strategy and we will continue to invest and innovate in this growing platform to help us maintain and grow our user base, engagement and monetization over the long term.

## **Segments**

Our reporting structure includes two reportable segments: Hotel and Non-Hotel. Our Non-Hotel reportable segment consists of three operating segments, which includes our Attractions, Restaurants and Vacation Rentals businesses. The segments are determined based on how the chief operating decision maker regularly assesses information and evaluates performance for operating decision-making purposes, including allocation of resources. The chief operating decision maker for the Company is our Chief Executive Officer. For further description of our segments see Item 1 “Business”, in our Annual Report on Form 10-K for the year ended December 31, 2015 and “Note 12: Segment Information” in the notes to the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

In the first quarter of 2016, we made the following changes to our internal reporting: (1) we are providing additional disclosure on our revenue sources within our Hotel segment, which replaced our previously reported revenue disclosures of click-based advertising revenue, display based advertising revenue, and subscription, transaction and other revenues; and (2) we have changed the name of our “Other” reportable segment to “Non-Hotel.” These changes had no effect on our consolidated financial statements or to previously reported segment information, as there was no change in the composition of our operating or reportable segments. These reporting changes are described more fully in the following discussion.

## **Employees**

As of September 30, 2016, we had 3,400 employees. Of these employees, approximately 51% were based in the United States. We believe we have good relationships with our employees, including relationships with employees represented by international works councils or other similar organizations.

## **Seasonality**

Traveler expenditures in the global travel market tend to follow a seasonal pattern. As such, expenditures by travel advertisers to market to potential travelers, and, therefore, our financial performance, tend to be seasonal as well. As a result, our financial results tend to be seasonally highest in the third quarter of a year, as it is a key period for travel research and trip-taking, compared to the first and fourth quarters which represent seasonal low points. Further significant shifts in our business mix or adverse economic conditions could result in future seasonal patterns that are different from historical trends.

## **Critical Accounting Policies and Estimates**

Critical accounting policies and estimates are those that we believe are important in the preparation of our consolidated financial statements because they require that management use judgment and estimates in applying those policies. We prepare our consolidated financial statements and accompanying notes in accordance with GAAP. Preparation of the consolidated financial statements and accompanying notes requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements as well as revenue and expenses during the periods reported. Management bases its estimates on historical experience, when applicable and other assumptions that it believes are reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions.

There are certain critical estimates that we believe require significant judgment in the preparation of our consolidated financial statements. We consider an accounting estimate to be critical if:

- It requires us to make an assumption because information was not available at the time or it included matters that were highly uncertain at the time we were making the estimate; and
- Changes in the estimate or different estimates that we could have selected may have had a material impact on our financial condition or results of operations.

Other than noted under “Recently Adopted Accounting Pronouncements” below, there have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

## **New and Recently Adopted Accounting Pronouncements**

### ***New Accounting Pronouncements Not Yet Adopted***

In October 2016, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance which requires an entity to recognize at the transaction date the income tax consequences of intercompany asset transfers. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In August 2016, the FASB issued new accounting guidance which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The new guidance specifically addresses the following cash flow topics in an effort to reduce diversity in practice: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon bonds; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. The guidance is effective for fiscal years, and interim periods

within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued new accounting guidance on leases that is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In March 2016, the FASB issued additional guidance which clarifies principal versus agent considerations and in April 2016, the FASB issued further guidance which clarifies the identification of performance obligations and the implementation guidance for licensing. The updated guidance will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective approach or a modified retrospective approach, which requires the initial cumulative effect to be recognized at the date of initial application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and early adoption is permitted for fiscal years beginning after December 15, 2016. We have not yet selected a transition method and are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

### **Recently Adopted Accounting Pronouncements**

In March 2016, the FASB issued new accounting guidance on stock compensation, or ASU 2016-09, which changes how companies account for certain aspects of stock-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance permits recognizing the impact of forfeitures on stock-based compensation as they occur or to recognize stock-based compensation expense net of expected forfeitures, requires companies to record excess tax benefits and tax deficiencies as income tax benefit or expense in the consolidated statement of operations when the awards vest or are settled, and eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the consolidated statement of cash flows.

We elected to early adopt the new guidance in the third quarter of 2016, which requires us to reflect any adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. The primary impact of adoption was the recognition of excess tax benefits and tax deficiencies in our provision for income taxes rather than additional paid-in capital for all periods in 2016. There was no impact to our provision for income taxes as previously reported for 2015. Additionally, our consolidated statement of cash flows now present excess tax benefits as an operating activity on a retrospective basis. As a result of the retrospective implementation of this guidance, the impact on the statement of cash flows for the nine months ended September 30, 2015 was an increase of \$32 million in cash flows from operating activities with an offsetting reduction in cash flows from financing activities. Finally, we have elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The net cumulative effect of this change was recognized as a \$1 million reduction to retained earnings as of January 1, 2016.

Adoption of the new guidance resulted in the recognition of net excess tax expense and benefit in our provision for income taxes rather than additional paid-in capital. As a result, we recorded \$1 million of income tax expense and \$2 million of income tax benefit for the three and nine months ended September 30, 2016, respectively, and impacted our previously reported quarterly results for the three months ended March 31, 2016 and June 30, 2016, as follows:

	<b>Three months ended March 31, 2016</b>	
	<b>As Reported</b>	<b>As Adjusted (1)(2)</b>
<b>(in millions, except per share data)</b>		
<b>Consolidated Statement of Operations:</b>		
Operating income	\$ 42	\$ 42
Provision for income taxes	(11)	(9)
Net income	27	29
Basic EPS	\$ 0.19	\$ 0.20
Diluted EPS	\$ 0.18	\$ 0.20
<b>Consolidated Statement of Cash Flows:</b>		
Net cash provided by operating activities	\$ 120	\$ 124
Net cash used in financing activities	\$ (94)	\$ (98)

	<b>Three months ended June 30, 2016</b>			
	<b>As Reported</b>		<b>As Adjusted (1)</b>	
	<b>(in millions, except per share data)</b>			
<b>Consolidated Statement of Operations:</b>				
Operating income	\$	48	\$	47
Provision for income taxes		(11)		(10)
Net income		34		34
Basic EPS	\$	0.23	\$	0.23
Diluted EPS	\$	0.23	\$	0.23
<b>Six months ended June 30, 2016</b>				
	<b>As Reported</b>		<b>As Adjusted (2)</b>	
	<b>(in millions)</b>			
<b>Consolidated Statement of Cash Flows:</b>				
Net cash provided by operating activities	\$	357	\$	363
Net cash used in financing activities	\$	(123)	\$	(129)

- (1) The election to account for forfeitures as they occur did not have a material impact for the three months ended March 31, 2016 and resulted in an increase to stock-based compensation expense of approximately \$1 million for the three months ended June 30, 2016.
- (2) Includes the reclassification of cash flows related to excess tax benefits from financing activities to operating activities of \$4 million and \$2 million for the three months ending March 31, 2016 and June 30, 2016, respectively.

In September 2015, the FASB issued new accounting guidance which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. The Company adopted this guidance in the first quarter of 2016. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued new accounting guidance which clarifies the accounting for fees paid by a customer in a cloud computing arrangement. This standard clarified whether a customer should account for a cloud computing arrangement as an acquisition of a software license or as a service arrangement by providing characteristics that a cloud computing arrangement must have in order to be accounted for as a software license acquisition. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for a cloud computing arrangement as a service contract. The company prospectively adopted this guidance in the first quarter of 2016. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

**Results of Operations**  
**Selected Financial Data**  
(in millions, except percentages)

	<u>Three months ended</u> <u>September 30,</u>		<u>% Change</u> <u>2016 vs. 2015</u>	<u>Nine months ended September 30,</u>		<u>% Change</u> <u>2016 vs. 2015</u>
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
Revenue	\$ 421	\$ 415	1%	\$ 1,164	\$ 1,183	(2)%
<b>Costs and expenses:</b>						
Cost of revenue	19	16	19%	55	46	20%
Selling and marketing	210	197	7%	584	546	7%
Technology and content	62	54	15%	185	152	22%
General and administrative	38	37	3%	110	114	(4)%
Depreciation	18	13	38%	51	42	21%
Amortization of intangible assets	8	10	(20)%	23	26	(12)%
Total costs and expenses:	<u>355</u>	<u>327</u>	9%	<u>1,008</u>	<u>926</u>	9%
Operating income	66	88	(25)%	156	257	(39)%
<b>Other income (expense):</b>						
Interest expense	(3)	(3)	-%	(10)	(7)	43%
Interest income and other, net	-	13	(100)%	-	15	(100)%
Total other income (expense), net	<u>(3)</u>	<u>10</u>	(130)%	<u>(10)</u>	<u>8</u>	(225)%
Income before income taxes	63	98	(36)%	146	265	(45)%
Provision for income taxes	(8)	(24)	(67)%	(27)	(70)	(61)%
Net income	<u>\$ 55</u>	<u>\$ 74</u>	(26)%	<u>\$ 119</u>	<u>\$ 195</u>	(39)%
<b>Other Financial Data:</b>						
Adjusted EBITDA (1)	\$ 114	\$ 130	(12)%	\$ 294	\$ 379	(22)%

(1) See “Adjusted EBITDA” discussion below for more information.

**Revenue and Segment Information**

In the first quarter of 2016 we began providing additional disclosure on our revenue sources within our Hotel segment, which are TripAdvisor-branded click-based and transaction revenue, TripAdvisor-branded display-based advertising and subscription revenue, and other hotel revenue. The purpose of this additional disclosure is to provide further understanding of our hotel revenue sources and allow for additional insight into the calculation of one of our key operating performance metrics, revenue per hotel shopper. In conjunction with providing these additional revenue disclosures, we will no longer provide our historically reported revenue disclosure of click-based advertising, display-based advertising, and subscription, transaction and other revenues. This change had no effect on our consolidated financial statements in any period or with the composition of our operating or reportable segments.

	<u>Three months ended September 30,</u>		<u>% Change</u> <u>2016 vs. 2015</u>	<u>Nine months ended September 30,</u>		<u>% Change</u> <u>2016 vs. 2015</u>
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
Revenue by Segment:	(in millions)			(in millions)		
Hotel	\$ 320	\$ 340	(6)%	\$ 939	\$ 1,003	(6)%
Non-Hotel	101	75	35%	225	180	25%
Total revenue	<u>\$ 421</u>	<u>\$ 415</u>	1%	<u>\$ 1,164</u>	<u>\$ 1,183</u>	(2)%
Adjusted EBITDA by Segment (1):						
Hotel	\$ 99	\$ 121	(18)%	\$ 309	\$ 377	(18)%
Non-Hotel	\$ 15	\$ 9	67%	\$ (15)	\$ 2	(850)%
Adjusted EBITDA Margin by Segment (2):						
Hotel	31%	36%		33%	38%	
Non-Hotel	15%	12%		(7)%	1%	

- (1) Included in Adjusted EBITDA by Segment is a general and administrative expense allocation for each segment, which is based on the segment's percentage of our total personnel costs. See "Note 12: Segment Information," in the notes to our unaudited condensed consolidated financial statements for more information.
- (2) We define "Adjusted EBITDA by Segment margin", as Adjusted EBITDA by segment divided by revenue by segment.

### Hotel Segment

Our Hotel segment revenue decreased by \$20 million and \$64 million during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015, primarily due to a \$22 million and \$87 million decrease in TripAdvisor-branded click-based and transaction revenue, which is primarily due to a decline in revenue per hotel shopper of 12% and 18% during both the three and nine months ended September 30, 2016, respectively, partially offset by growth of \$1 million and \$13 million in TripAdvisor-branded display-based advertising and subscription revenue, and \$1 million and \$10 million in other hotel revenue, during the three and nine months ended September 30, 2016, respectively, all of which are discussed below.

Adjusted EBITDA in our Hotel segment decreased \$22 million and \$68 million during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015, primarily due to a decrease in Hotel segment revenue and increased personnel and overhead costs as well as online traffic acquisition costs, partially offset by lower television advertising costs due to the cessation of our television advertising campaign in 2016. Our Hotel segment Adjusted EBITDA margin declined during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015, primarily due to an overall decrease in Hotel segment revenue, and to a lesser extent increased investment levels to support future growth.

The following is a detailed discussion of the revenue sources within our Hotel segment:

	<u>Three months ended September 30,</u>		<u>% Change</u> <u>2016 vs. 2015</u>	<u>Nine months ended September 30,</u>		<u>% Change</u> <u>2016 vs. 2015</u>
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
	<u>(in millions)</u>			<u>(in millions)</u>		
<b>Hotel:</b>						
TripAdvisor-branded click-based and transaction	\$ 206	\$ 228	(10%)	\$ 596	\$ 683	(13%)
TripAdvisor-branded display-based advertising and subscription	73	72	1%	214	201	6%
Other hotel revenue	41	40	3%	129	119	8%
<b>Total Hotel revenue</b>	<b>\$ 320</b>	<b>\$ 340</b>	<b>(6%)</b>	<b>\$ 939</b>	<b>\$ 1,003</b>	<b>(6%)</b>

#### TripAdvisor-branded Click-based and Transaction Revenue

TripAdvisor-branded click-based and transaction revenue includes click-based advertising revenue (or revenue derived from our metasearch auction) from our TripAdvisor-branded websites and revenue from our transaction-based hotel instant booking feature. For the three and nine months ended September 30, 2016, 64% and 63%, respectively, of our total Hotel segment revenue was derived from our TripAdvisor-branded click-based and transaction revenue. For the three and nine months ended September 30, 2015, 67% and 68%, respectively, of our total Hotel segment revenue was derived from our TripAdvisor-branded click-based and transaction revenue. TripAdvisor-branded click-based and transaction revenue decreased \$22 million and \$87 million during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015, primarily due to a decline of 12% and 18%, respectively, in revenue per hotel shopper during the three and nine months ended September 30, 2016, which is explained in further detail below.

Our largest source of Hotel segment revenue is click-based advertising revenue from our TripAdvisor-branded websites, which includes links to our partners' sites and contextually-relevant branded and related text links. Our click-based advertising partners are predominantly OTAs, and direct suppliers in the hotel, airline and cruise product categories. Click-based advertising is generally priced on a cost-per-click, or "CPC", basis, with payments from advertisers based on the number of users who click on each type of link, or in other words a conversion of a hotel shopper to a paid click. CPC is the effective price that partners are willing to pay for a hotel shopper lead, and is determined in a competitive process that allows our partners to use our proprietary, automated bidding system to submit CPC bids to have their rates and availability listed on our site. This process is called our metasearch auction. When a partner submits a CPC bid, they are agreeing to pay the amount of that bid each time a user subsequently clicks on the uniform resource locator, or URL link, to the partner's website. Bids can be submitted periodically – as often as daily – on a property-by-property basis. The size of the bid relative to other bids received is the primary factor used to determine the placement of partner links on our site, including on hotel comparison search results and on property detail pages. CPCs are generally lower in international markets than in the U.S. market, and, in addition, hotel shoppers visiting via mobile phones generally monetize at a significantly lower rate than hotel shoppers visiting via desktop or tablet.



Our transaction revenue is comprised of revenue from our hotel instant booking feature, which allows the merchant of record, generally an OTA or hotel partner, to pay a commission to TripAdvisor for a user that completes a hotel reservation on our website. Instant booking revenue is currently recognized under two different models: the transaction model and the consumption model. Our transaction model commission revenue is recorded at the time a traveler books a hotel reservation on our site with one of our transaction partners. Our transaction partners are liable for commission payments to us upon booking and the partner assumes the cancellation risk. When a traveler makes a hotel reservation on our site with one of our consumption partners, revenue is not recorded until the traveler completes the stay as our consumption partners are liable for commission payment only upon the completion of stay by the traveler. OTA and hotel partner placement, as well as comparative hotel prices available to the traveler in the booking process under both models, are determined by a bidding process within our proprietary automated bidding system, based on a number of variables including commission rates, depending on the specific hotel selected. Instant booking commissions are primarily a function of average gross booking value generated from hotel reservations, cancellations rates experienced, and commission rates negotiated with each of our partners.

The key drivers of TripAdvisor-branded click-based and transaction revenue include the growth in average monthly unique hotel shoppers and particularly revenue per hotel shopper, which measures how effectively we convert our hotel shoppers into revenue. We measure performance by calculating revenue per hotel shopper on an aggregate basis, dividing total TripAdvisor-branded click-based and transaction revenue by total average monthly unique hotel shoppers on TripAdvisor-branded websites for the periods presented.

While we believe total traffic growth, or growth in monthly visits from unique visitors, is reflective of our overall brand growth, we also track and analyze sub-segments of our traffic and their correlation to revenue generation and utilize data regarding hotel shoppers as a key indicator of revenue growth. Hotel shoppers are visitors who view either a listing of hotels in a city or a specific hotel page. The number of hotel shoppers tends to vary based on seasonality of the travel industry and general economic conditions, as well as other factors outside of our control. Given these factors, as well as the trend towards increased usage on mobile phones and international growth, quarterly and annual hotel shopper growth is a difficult metric to forecast.

Our aggregate average monthly unique hotel shoppers on TripAdvisor-branded websites increased 3% and 5% during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015, according to our log files. The increase in hotel shoppers for the three and nine months ended September 30, 2016, respectively, was primarily due to growth in our online marketing channels as well as the general trend of an increasing number of hotel shoppers visiting our websites on mobile phones, which more than offset headwinds experienced in hotel shopper growth on desktop devices during these periods. While increasing the absolute number of hotel shoppers on our sites remains a top strategic priority, our ability to grow through paid traffic channels has been negatively impacted by lower revenue per hotel shopper.

The below table summarizes our revenue per hotel shopper calculation and growth rate, in aggregate, for the periods presented:

	<u>Three months ended September 30,</u>		<u>% Change 2016 vs. 2015</u>	<u>Nine months ended September 30,</u>		<u>% Change 2016 vs. 2015</u>
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
	<u>(in millions)</u>			<u>(in millions)</u>		
<b>Revenue per hotel shopper:</b>						
TripAdvisor-branded click-based and transaction revenue	\$ 206	\$ 228	(10%)	\$ 596	\$ 683	(13%)
Divided by: Total average monthly unique hotel shoppers for the quarter	458	443	3%	1,286	1,223	5%
	<u>\$ 0.45</u>	<u>\$ 0.51</u>	(12%)	<u>\$ 0.46</u>	<u>\$ 0.56</u>	(18%)

Our overall revenue per hotel shopper decreased 12% and 18%, respectively, during the three and nine months ended September 30, 2016 when compared to the same periods in 2015, according to our log files. We believe the primary drivers of this decrease are a result of our global launch of our hotel instant booking feature, challenging metasearch comparatives for the same periods in 2015, a greater percentage of hotel shoppers visiting TripAdvisor websites via mobile phones, which monetize at a significantly lower rate than hotel shoppers that visit TripAdvisor websites via desktop or tablet, and competitive and other travel market dynamics.

### *TripAdvisor-branded Display-based Advertising and Subscription Revenue*

For both the three and nine months ended September 30, 2016, 23% of our Hotel segment revenue was derived from our TripAdvisor-branded display based advertising and subscription revenue, which consists of revenue from display-based advertising, subscription-based hotel advertising revenue (or Business Listings), as well as content licensing with third party websites. For the three and nine months ended September 30, 2015, 21% and 20%, respectively, of our Hotel segment revenue was derived from our TripAdvisor-branded display based advertising and subscription revenue.

Our TripAdvisor-branded display-based advertising and subscription revenue increased by \$1 million or 1%, and \$13 million or 6%, during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015. The increase in display-based advertising revenue was primarily due to an increase in pricing, while the increase in subscription revenue was a result of both increased pricing and sales productivity.

### *Other Hotel Revenue*

For the three and nine months ended September 30, 2016, 13% and 14%, respectively, of our Hotel segment revenue was derived from other hotel revenues. For both the three and nine months ended September 30, 2015, 12% of our Hotel segment revenue was derived from other hotel revenues. Our other hotel revenue primarily includes revenue from non-TripAdvisor branded websites, including click-based advertising revenue, display-based advertising revenue and room reservations sold through these websites. Our other hotel revenue increased by \$1 million and \$10 million during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015.

### **Non-Hotel Segment**

Our Non-Hotel segment revenue increased by \$26 million or 35%, and \$45 million or 25% during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015, primarily driven by increased bookings in 2016 across all businesses.

Our Attractions business has benefitted in 2016 from an increase in supply of attraction listings and attraction partners, continued growth in our user base globally, and enhanced user experience from the introduction of new features, such as attractions on instant booking for mobile, which enables users to purchase tickets and tours seamlessly without leaving the mobile app. These factors are all contributing to more consumer choice, increased conversion, and continued revenue growth due to increased bookings. In our Restaurants business, we saw growth in our restaurant listings of 40% during the nine months ended September 30, 2016, when compared to the same period in 2015, and continued revenue growth due to increased bookings in our more established markets, and additionally from expansion into new markets. In our Vacation Rentals business we continued to see an increase in property listings, as well as increased revenue during the three and nine months ended September 30, 2016, when compared to the same periods in 2015, primarily due to increased revenue recognized at time of stay in our third quarter seasonal peak, due to the continued shift to our free-to-list model, and increased bookings during the year.

Adjusted EBITDA in our Non-Hotel segment increased \$6 million and decreased \$17 million during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015. The increase during the three months ended September 30, 2016, when compared to the same period in 2015, was primarily due to an increase in revenue offset by an increase in personnel and overhead costs of \$12 million and online traffic acquisition costs of \$5 million. The decrease during the nine months ended September 30, 2016, when compared to the same period in 2015, was primarily due to increased personnel and overhead costs of \$37 million, and also increased online traffic acquisition costs of \$15 million, which more than offset the increase in revenue. The Attractions, Restaurant and Vacation Rental businesses are all at the earlier stages of their growth and business life cycle which require early investment to fund growth initiatives, and a contributing factor to this reportable segment operating at a loss.

## Revenue by Geography

The following table presents our revenue by geographic region. Revenue by geography is based on the geographic location of our websites.

	Three months ended September 30,		% Change 2016 vs. 2015	Nine months ended September 30,		% Change 2016 vs. 2015
	2016	2015		2016	2015	
	(in millions)			(in millions)		
<b>Revenue by geographic region:</b>						
North America (1)	\$ 233	\$ 219	6%	\$ 641	\$ 611	5%
EMEA (2)	136	135	1%	373	382	(2%)
APAC (3)	38	43	(12%)	111	134	(17%)
LATAM (4)	14	18	(22%)	39	56	(30%)
Total	<u>\$ 421</u>	<u>\$ 415</u>	1%	<u>\$ 1,164</u>	<u>\$ 1,183</u>	(2%)

- (1) United States and Canada
- (2) Europe, Middle East and Africa
- (3) Asia-Pacific
- (4) Latin America

Revenue outside of North America, or international revenue, decreased \$8 million, or 4%, and \$49 million or 9%, respectively, during the three and nine months ended September 30, 2016, when compared to the same periods in 2015. International revenue represented 45% of total revenue during both the three and nine months ended September 30, 2016, respectively, and represented 47% and 48% of total revenue during the three and nine months ended September 30, 2015, respectively. Our international revenue growth rate decelerated during the three and nine months ended September 30, 2016 when compared to the same periods in 2015, primarily due to the overall decrease in revenue per hotel shopper, which is explained above. Our international revenue also declined as a percentage of total revenue during the three and nine months ended September 30, 2016 when compared to the same periods in 2015. We believe this was largely due to the timing of our instant booking feature rollout in international markets during the first half of this year, and its associated dilutive impact to TripAdvisor-branded click-based and transaction revenue, as compared to the rollout in our U.S market, which took place in the third quarter of 2015, and to a lesser extent the negative impact to total revenue from the fluctuation of foreign exchange rates. In addition, our international hotel shoppers generally monetize at lower revenue per hotel shopper rates than hotel shoppers in the U.S. market.

## Consolidated Expenses

### Cost of Revenue

Cost of revenue consists of expenses that are directly related or closely correlated to revenue generation, including direct costs, such as ad serving fees, flight search fees, credit card fees and other transaction costs, and data center costs. In addition, cost of revenue includes personnel and overhead expenses, including salaries, benefits, stock-based compensation and bonuses for certain customer support personnel who are directly involved in revenue generation.

	Three months ended September 30,		% Change 2016 vs. 2015	Nine months ended September 30,		% Change 2016 vs. 2015
	2016	2015		2016	2015	
	(in millions)			(in millions)		
Direct costs	\$ 14	\$ 12	17%	\$ 40	\$ 35	14%
Personnel and overhead	5	4	25%	15	11	36%
Total cost of revenue	<u>\$ 19</u>	<u>\$ 16</u>	19%	<u>\$ 55</u>	<u>\$ 46</u>	20%
% of revenue	4.5%	3.9%		4.7%	3.9%	

Cost of revenue increased \$3 million and \$9 million during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015, primarily due to increased merchant credit card and transaction fees, and personnel costs from increased headcount needed to support business growth and customer support.

### Selling and Marketing

Selling and marketing expenses primarily consist of direct costs, including traffic generation costs from search engine marketing, or SEM, and other online traffic acquisition costs, syndication costs and affiliate program commissions, brand advertising, television and other offline advertising, and public relations. In addition, our indirect sales and marketing expense consists of personnel and overhead expenses, including salaries, commissions, benefits, stock-based compensation and bonuses for sales, sales support, customer support and marketing employees.

	Three months ended September 30,		% Change 2016 vs. 2015	Nine months ended September 30,		% Change 2016 vs. 2015
	2016	2015		2016	2015	
	(in millions)					
Direct costs	\$ 159	\$ 152	5%	\$ 430	\$ 413	4%
Personnel and overhead	51	45	13%	154	133	16%
Total selling and marketing	\$ 210	\$ 197	7%	\$ 584	\$ 546	7%
% of revenue	49.9%	47.5%		50.2%	46.2%	

Direct selling and marketing costs increased \$7 million and \$17 million during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015, primarily due to increased online traffic acquisition costs and to a lesser extent social media costs, offset by a decrease in costs related to the cessation of our television advertising campaign. We spent \$21 million and \$50 million on our television advertising campaign during the three and nine months ended September 30, 2015, respectively, which we did not incur in the three and nine months ended September 30, 2016. Personnel and overhead costs increased \$6 million and \$21 million during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015, primarily due to an increase in headcount needed to support business growth, including international expansion.

### Technology and Content

Technology and content expenses consist primarily of personnel and overhead expenses, including salaries and benefits, stock-based compensation and bonuses for salaried employees and contractors engaged in the design, development, testing, content support, and maintenance of our websites and mobile apps. Other costs include licensing, maintenance expense, computer supplies, telecom costs, content translation costs, and consulting costs.

	Three months ended September 30,		% Change 2016 vs. 2015	Nine months ended September 30,		% Change 2016 vs. 2015
	2016	2015		2016	2015	
	(in millions)					
Personnel and overhead	\$ 56	\$ 45	24%	\$ 161	\$ 127	27%
Other	6	9	(33%)	24	25	(4%)
Total technology and content	\$ 62	\$ 54	15%	\$ 185	\$ 152	22%
% of revenue	14.7%	13.0%		15.9%	12.8%	

Technology and content costs increased \$8 million and \$33 million during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015, primarily due to increased personnel costs, including an increase of \$3 million and \$10 million, respectively, in stock-based compensation, from increased headcount needed to support business growth, including international expansion and enhanced site features.

### General and Administrative

General and administrative expenses consist primarily of personnel and related overhead costs, including personnel engaged in executive leadership, finance, legal, and human resources, including stock-based compensation. General and administrative costs also include professional service fees and other fees including audit, legal, tax and accounting, and other costs including bad debt expense, non-income taxes and charitable contributions.

	Three months ended September 30,		% Change 2016 vs. 2015	Nine months ended September 30,		% Change 2016 vs. 2015
	2016	2015		2016	2015	
	(in millions)			(in millions)		
Personnel and overhead	\$ 27	\$ 26	4%	\$ 77	\$ 80	(4%)
Professional service fees and other	11	11	-%	33	34	(3%)
Total general and administrative	\$ 38	\$ 37	3%	\$ 110	\$ 114	(4%)
% of revenue	9.0%	8.9%		9.5%	9.6%	

General and administrative costs increased \$1 million and decreased \$4 million during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015. Personnel and overhead costs increased \$1 million and decreased \$3 million during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015. Professional service fees and other were flat during the three months ended September 30, 2016 and decreased by \$1 million during the nine months ended September 30, 2016, when compared to the same period in 2015, partially due to a decrease in consulting costs and charitable foundation costs, primarily offset by an increase in non-income taxes and bad debt expense.

### Depreciation

Depreciation expense consists of depreciation on computer equipment, leasehold improvements, furniture, office equipment and other assets, our corporate headquarters building and amortization of capitalized software and website development costs.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Depreciation	\$ 18	\$ 13	\$ 51	\$ 42
% of revenue	4.3%	3.1%	4.4%	3.6%

Depreciation expense increased \$5 million during the three months ended September 30, 2016, when compared to the same period in 2015, primarily due to increased amortization related to capitalized software and website development costs. Depreciation expense increased \$9 million during the nine months ended September 30, 2016, when compared to the same period in 2015 primarily due to increased amortization related to capitalized software and website development costs, and \$2 million of depreciation on our corporate headquarters building during the first six months of 2016, which we did not incur in the same period in 2015.

### Amortization of Intangible Assets

Amortization consists of the amortization of purchased definite-lived intangibles.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Amortization of intangible assets	\$ 8	\$ 10	\$ 23	\$ 26
% of revenue	1.9%	2.4%	2.0%	2.2%

Amortization related to purchased definite lived intangibles from recent business acquisitions was more than offset by the completion of amortization related to certain intangible assets from prior years during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015.

### Interest Expense

Interest expense primarily consists of interest incurred, commitment fees and debt issuance cost amortization related to our 2011 Credit Facility, 2015 Credit Facility, 2016 Credit Facility, and Chinese Credit Facilities, as well as interest on our financing obligation related to our corporate headquarters.

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(in millions)		(in millions)	
Interest expense	\$ (3)	\$ (3)	\$ (10)	\$ (7)

Interest expense remained flat during the three months ended September 30, 2016, when compared to the same period in 2015. Interest expense increased \$3 million during the nine months ended September 30, 2016, when compared to the same period in 2015, primarily due to interest imputed on our financing obligation related to our corporate headquarters, which we did not incur in the first six months of 2015.

### Interest Income and Other, Net

Interest income and other, net primarily consists of interest earned and amortization of discounts and premiums on our marketable securities, net foreign exchange gains and losses, and gains and losses on sales of our marketable securities and sale of businesses.

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(in millions)		(in millions)	
Interest income and other, net	\$ -	\$ 13	\$ -	\$ 15

Interest income and other, net decreased \$13 million and \$15 million during the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015, primarily due to a \$17 million gain from sale of business of one of our Chinese subsidiaries in the third quarter of 2015 that did not reoccur in 2016 and, to a lesser extent, the fluctuation of foreign exchange rates and settlements of our forward contracts. Refer to “Note 14: Interest income and other, net” in the notes to our unaudited consolidated financial statements in this Quarterly Report on Form 10-Q for additional information.

### Provision for Income Taxes

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(in millions)		(in millions)	
Provision for income taxes	\$ 8	\$ 24	\$ 27	\$ 70
Effective tax rate	12.7%	24.5%	18.5%	26.4%

For the three and nine months ended September 30, 2016, respectively, the effective tax rate is lower than the federal statutory tax rate primarily due to earnings in jurisdictions outside the United States, where our effective tax rate is lower, increased research and development tax credits, and the recognition of excess tax benefits related to stock-based payments resulting from the adoption of ASU 2016-09 as of January 1, 2016, as described in “Note 2: Significant Accounting Policies.” These drivers also caused a decrease in the effective tax rate for the three and nine months ended September 30, 2016, respectively, when compared to the same periods in 2015.

### Related Party Transactions

For information on our relationship with Liberty TripAdvisor Holdings, Inc., refer to “Note 13: Related Party Transactions” in the notes to our unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q. We had no related party transactions with LTRIP during the three and nine months ended September 30, 2016 and 2015, respectively.

## Stock-Based Compensation

Refer to “Note 4: Stock Based Awards and Other Equity Instruments” in the notes to our unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q for further information on current year equity award activity, including the issuance of 1,050,842 service-based stock options with a weighted average grant-date fair value per option of \$22.95, and 1,886,536 service-based RSUs with a weighted average grant-date fair value of \$63.96 during the nine months ended September 30, 2016.

## Liquidity and Capital Resources

The following section explains how we have generated and used our cash during the nine months period ended September 30, 2016, and as compared to the same period in 2015, describes our current capital resources and discusses our future financial commitments.

### Sources and Uses of Cash

Our cash flows from operating, investing and financing activities, as reflected in the unaudited condensed consolidated statements of cash flows, are summarized in the following table:

	Nine months ended September 30,	
	2016	2015
	(in millions)	
Net cash provided by (used in):		
Operating activities	\$ 277	\$ 339
Investing activities	(141)	(126)
Financing activities	(133)	(93)

Our principal source of liquidity is cash flow generated from operations, although liquidity needs can also be met through drawdowns under our 2015 Credit Facility, 2016 Credit Facility and Chinese Credit Facilities. As of September 30, 2016 and December 31, 2015, we had \$756 million and \$698 million, respectively, of cash, cash equivalents and short and long-term available-for-sale marketable securities. As of September 30, 2016, approximately \$607 million of our cash, cash equivalents, and short and long-term marketable securities are held by our international subsidiaries, primarily in the United Kingdom. Cumulative undistributed earnings of foreign subsidiaries that we intend to indefinitely reinvest outside of the United States totaled approximately \$860 million as of September 30, 2016. Should we distribute, or be treated under certain U.S. tax rules as having distributed, the earnings of foreign subsidiaries in the form of dividends or otherwise, we may be subject to U.S. income taxes. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable because of the complexities of the hypothetical calculation. The majority of cash on hand is denominated in U.S. dollars.

As of September 30, 2016, we had outstanding borrowings of \$20 million in long-term debt and approximately \$978 million of borrowing capacity available under our 2015 Credit Facility, which we are currently borrowing under a one-month interest period at 1.8% per annum, which will reset periodically. In addition, we had outstanding borrowings of \$73 million in short-term debt and no additional borrowing capacity available under our new 2016 Credit Facility, which we are currently borrowing under a one-month interest period at 1.7% per annum, which will reset periodically. The Company entered into the 2016 Credit Facility during the three months ended September 30, 2016, which provides for a \$73 million unsecured revolving credit facility with no specific expiration date. We borrowed \$73 million from this uncommitted credit facility in September 2016. These funds were used towards general working capital needs of the Company, primarily for partial repayment of our long term debt, and the liability is recorded in short-term liabilities on our unaudited condensed consolidated balance sheet as of September 30, 2016. The 2016 Credit Facility is available at the Lender’s absolute discretion and can be canceled at any time. Repayment terms for borrowings under the 2016 Credit Facility are generally one to six month periods and bear interest at LIBOR plus 112.5 basis points. The Company may borrow from the 2016 Credit Facility in U.S dollars only and we may voluntarily repay any outstanding borrowing at any time without premium or penalty. Finally, as of September 30, 2016, we had current borrowings of \$3 million and approximately \$38 million of available borrowing capacity under our Chinese Credit Facilities, which currently bear interest at a rate based on 100% of the People’s Bank of China’s base rate, or 4.35%. For further discussion on our credit facilities refer to “Note 7: Debt” in the notes to our unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Historically, the cash we generate from operations has been sufficient to fund our working capital requirements, capital expenditures and to meet our long term debt obligations and other financial commitments. Management believes that our cash, cash equivalents and available-for-sale marketable securities, combined with expected cash flows generated by operating activities and available cash from our credit facilities, will be sufficient to fund our ongoing working capital requirements, capital expenditures and business growth initiatives; meet our short and long term debt obligations and other financial commitments; and fund any potential share repurchases and acquisitions for at least the next twelve months. However, if during that period or thereafter, we are not

successful in generating sufficient cash flow from operations or in raising additional capital, including refinancing or incurring additional debt, when required in sufficient amounts and on terms acceptable to us, we may be required to reduce our planned capital expenditures and scale back the scope of our business growth initiatives, either of which could have a material adverse effect on our future financial condition or results of operations.

### ***Operating Activities***

For the nine months ended September 30, 2016, net cash provided by operating activities decreased by \$62 million, or 18%, when compared to the same period in 2015, primarily due to a decrease in net income of \$76 million, partially offset by a gain on sale of business of \$17 million in 2015 that did not reoccur in 2016.

### ***Investing Activities***

For the nine months ended September 30, 2016, net cash used in investing activities increased by \$15 million when compared to the same period in 2015, primarily due to a net increase in cash used in the purchases, sales and maturities of our marketable securities of \$35 million and net proceeds from the sale of one of our Chinese subsidiaries of \$22 million in 2015 which did not reoccur in 2016, offset by a decrease in capital expenditures of \$36 million, primarily related to the completion of our corporate headquarters building in 2015, and a decrease in cash paid for business acquisitions of \$6 million, net of cash acquired.

### ***Financing Activities***

For the nine months ended September 30, 2016, net cash used in financing activities increased by \$40 million when compared to the same period in 2015, primarily due to net repayments of our outstanding borrowings under our 2015 Credit Facility of \$180 million in 2016, payments of \$21 million for common stock share repurchases under our authorized share repurchase program in 2016, and \$12 million in lease incentive payments received related to our new corporate headquarters in 2015 that did not reoccur in 2016, offset by net new borrowings on our 2016 Credit Facility of \$73 million, repayment of our Term Loan of \$300 million and net borrowings on our 2015 Credit Facility of \$287 million in 2015, incremental repayments of our outstanding borrowings related to our Chinese Credit Facility of \$41 million in 2015, a decrease in tax withholding payments of \$53 million in 2016 primarily related to a decrease in the number of stock options exercised and lower average stock price in 2016.

### **Contractual Obligations, Commercial Commitments and Off-Balance Sheet Arrangements**

There have been no material changes outside the normal course of business to our contractual obligations and commercial commitments other than our 2016 Credit Facility, as noted above, since December 31, 2015. Refer to “Liquidity and Capital Resources” in Part II, Item 7. —Management’s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2015.

As of September 30, 2016, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K of the SEC, that have, or are reasonably likely to have, a current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

### **Contingencies**

In the ordinary course of business, we and our subsidiaries are parties to regulatory and legal matters. These matters may relate to claims involving alleged infringement of third-party intellectual property rights, defamation, taxes, regulatory compliance and other claims. Periodically, we review the status of all significant outstanding matters to assess the potential financial exposure. When (i) it is probable that an asset has been impaired or a liability has been incurred, and (ii) the amount of the loss can be reasonably estimated, we record the estimated loss in our consolidated statements of operations. We provide disclosure in the notes to the consolidated statements for loss contingencies that do not meet both of these conditions if there is a reasonable possibility that a loss may have been incurred that would be material to the financial statements. Significant judgment is required to determine the probability that a liability has been incurred and whether such liability is reasonably estimable. We base accruals made on the best information available at the time which can be highly subjective. Although occasional adverse decisions or settlements may occur, the Company does not believe that the final disposition of any of these matters will have a material adverse effect on the business. However, the final outcome of these matters could vary significantly from our estimates. There may be claims or actions pending or threatened against us of which we are currently not aware and the ultimate disposition of which would have a material adverse effect on us.



We are also under audit by the IRS and various other domestic and foreign tax authorities with regards to income tax matters. We have reserved for potential adjustments to our provision for income taxes that may result from examinations by, or any negotiated agreements with, these tax authorities. Although we believe our tax estimates are reasonable, the final determination of audits could be materially different from our historical income tax provisions and accruals. The results of an audit could have a material effect on our financial position, results of operations, or cash flows in the period for which that determination is made.

Additionally, we earn an increasing portion of our income, and accumulate a greater portion of cash flows, in foreign jurisdictions which we consider indefinitely reinvested. Any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates and incremental cash tax payments. In addition, there have been proposals to amend U.S. tax laws that would significantly impact the manner in which U.S. companies are taxed on foreign earnings. Although we cannot predict whether or in what form any legislation will pass, if enacted, it could have a material adverse impact on our U.S. tax expense and cash flows. See “Note 8: *Income Taxes*” in the notes to our unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q for additional information on potential contingencies surrounding income taxes.

## Adjusted EBITDA

To provide investors with additional information regarding our financial results, we also disclose Adjusted EBITDA, which is a non-GAAP financial measure. A “non-GAAP financial measure” refers to a numerical measure of a company’s historical or future financial performance, financial position, or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP in such company’s financial statements.

Adjusted EBITDA is our segment profit measure and a key measure used by our management and board of directors to understand and evaluate the operating performance of our business and on which internal budgets and forecasts are based and approved. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. We define Adjusted EBITDA as net income (loss) plus: (1) provision for income taxes; (2) other income (expense), net; (3) depreciation of property and equipment, including amortization of internal use software and website development; (4) amortization of intangible assets; (5) stock-based compensation and other stock-settled obligations; (6) goodwill, long-lived asset and intangible asset impairments; and (7) other non-recurring expenses and income.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results reported in accordance with GAAP. Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including net income and our other GAAP results.

Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not consider the potentially dilutive impact of stock-based compensation or other stock-settled obligations;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and
- Other companies, including companies in our own industry, may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

The following table presents a reconciliation of Adjusted EBITDA to Net Income, the most directly comparable financial measure calculated and presented in accordance with GAAP, for the periods presented above.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in millions)			
Net income	\$ 55	\$ 74	\$ 119	\$ 195
Provision for income taxes	8	24	27	70
Other expense (income), net	3	(10)	10	(8)
Other non-recurring expenses	-	-	-	2
Stock-based compensation	22	19	64	52
Amortization of intangible assets	8	10	23	26
Depreciation	18	13	51	42
Adjusted EBITDA	\$ 114	\$ 130	\$ 294	\$ 379

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks, including changes in interest rates and foreign currency exchange rates that could adversely affect our results of operations or financial condition. We manage our exposure to these risks through established policies and procedures and by assessing the anticipated near-term and long-term fluctuations in interest rates and foreign currency exchange rates. Our objective is to mitigate potential income statement, cash flow and market exposures from changes in interest and foreign exchange rates.

There has been no material change in our market risk profile during the three months ended September 30, 2016. For additional information, see “Quantitative and Qualitative Disclosures About Market Risk” in Item 7A. in Part II of our Annual Report on Form 10-K for the year ended December 31, 2015.

### Item 4. Controls and Procedures

As of September 30, 2016, our management, with the participation of our President and Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that, as of September 30, 2016, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes to our internal control over financial reporting that occurred during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings

In the ordinary course of business, we are parties to legal proceedings and claims involving alleged infringement of third-party intellectual property rights, defamation, taxes, regulatory compliance and other claims. Rules and regulations promulgated by the SEC require the description of material pending legal proceedings, other than ordinary, routine litigation incident to the registrant’s business, and advise that proceedings ordinarily need not be described if they primarily involve damages claims for amounts (exclusive of interest and costs) not individually exceeding 10% of the current assets of the registrant and its subsidiaries on a consolidated basis. In the judgment of management, none of the pending litigation matters that we are defending involves or is likely to involve amounts of that magnitude. There may be claims or actions pending or threatened against us of which we are currently not aware and the ultimate disposition of which could have a material adverse effect on us.

## Item 1A. Risk Factors

*You should consider carefully the risks described below together with all of the other information included in this Quarterly Report as they may impact our business, results of operations and/or financial condition. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also impair our business, results of operations or financial condition. If any of the following risks occur, our business, financial condition, operating results and cash flows could be materially adversely affected.*

***If we are unable to continue to increase visitors to our websites and to cost-effectively convert these visitors into repeat users, contributors and/or shoppers, our revenue could decline.***

The primary asset that we use to attract visitors to our websites and convert these visitors into repeat users, contributors and/or shoppers is our ability to collect, create, organize and distribute high-quality, commercially valuable content that meets users' specific interests and enables them to use the content and interact with the supporting communities. There can be no assurances that we will continue to obtain content in a cost-effective manner or in a manner that meets rapidly changing consumer demand. Any failure to obtain and manage such content in a manner that will engage users, or a failure to provide content and products that are perceived as useful, reliable and trustworthy, could adversely affect user experiences and reduce traffic to our websites, which would make our websites less attractive to advertisers. Any change in the cost structure pursuant to which we obtain our content, in travelers' relative appreciation of user-based versus expert content, in the quality of our content versus other sites' content or any other changes that could reduce traffic to our websites would negatively impact our business and financial performance.

***We derive a substantial portion of our revenue from advertising and any significant reduction in spending by advertisers could harm our business.***

We derive a substantial portion of our revenue from the sale of advertising. We enter into master advertising contracts with our advertising partners, however, these agreements are generally limited to matters such as privacy and compliance, payment terms, termination and indemnities and most contracts can be terminated by our partners at will or on short notice. Our ability to grow advertising revenue with our existing or new advertising partners is dependent in large part on our ability to generate revenue for them. Advertisers will not continue to do business with us if their investment in such advertising does not generate sales leads, customers, bookings, or revenue and profit on a cost-effective basis. If we are unable to provide value to our advertising partners, they will likely stop placing ads on our websites, which would harm our revenues and business. We cannot guarantee that our current advertisers will fulfill their obligations under existing contracts, continue to advertise beyond the terms of existing contracts or enter into any additional contracts with us.

Click-based advertising accounts for the majority of our advertising revenue. Any changes we make to our business model may impact our advertising revenue in ways that we do not expect. In addition, if new, more effective advertising models were to emerge, there can be no assurance that we will be able to offer these models or offer them in an effective manner.

Furthermore, our CPC pricing for click-based advertising depends, in part, on competition between advertisers. If our large advertisers become less competitive with each other, merge with each other or with our competitors, focus more on per-click profit than on traffic volume, or are able to reduce CPCs, this could have an adverse impact on our click-based advertising revenue which would, in turn, have an adverse effect on our business, financial condition and results of operations.

Expenditures by advertisers also tend to be cyclical, subject to variation based on budgetary constraints, project cancellation or delay, and to reflect overall economic conditions and buying patterns. If we are unable to generate advertising revenue due to factors outside of our control, our business and financial performance would be adversely affected.

***We rely on a relatively small number of significant partners and any reduction in spending by or loss of these partners could seriously harm our business.***

We derive a substantial portion of our revenue from a relatively small number of partners and rely significantly on these relationships. For example, for the year ended December 31, 2015, our two most significant advertising partners, Expedia and Priceline (and their subsidiaries), accounted for a combined 46% of total revenue. While we enter into contracts with our partners, the terms of these agreements generally address matters such as privacy and compliance, payment terms, termination and indemnities and most of these contracts can be terminated by our partners at will or on short notice. If any of our significant partners were to cease or significantly curtail their business with us, we could experience a rapid decline in our revenue over a relatively short period of time which would have a material impact on our business.

***Our businesses could be negatively affected by changes in Internet search engine algorithms and dynamics, or search engine disintermediation.***

We rely heavily on Internet search engines, such as Google, to generate traffic to our websites, principally through the purchase of travel-related keywords. Search engines, including Google, frequently update and change the logic that determines the placement and display of results of a user's search, such that the purchased or algorithmic placement of links to our websites can be negatively affected. In addition, a search engine could, for competitive or other purposes, alter its search algorithms or results causing our websites to place lower in search query results. If a major search engine changes its algorithms in a manner that negatively affects the search engine ranking of our websites or those of our partners, or if competitive dynamics impact the cost or effectiveness of SEO or SEM in a negative manner, our business and financial performance would be adversely affected, potentially to a material extent. Furthermore, our failure to successfully manage our SEO and SEM strategies could result in a substantial decrease in traffic to our websites, as well as increased costs if we were to replace free traffic with paid traffic.

In addition, to the extent that Google or other leading search or metasearch engines that have a significant presence in our key markets, disintermediate OTA's or travel content providers by offering comprehensive travel planning or shopping capabilities, or refer those leads to suppliers directly, or to other favored partners, there could be a material adverse impact on our business and financial performance. To the extent these actions have a negative effect on our search traffic, whether on desktop, tablet or mobile phones, our business and financial performance could be adversely affected.

***Failure to effectively optimize results from our instant booking feature could have a negative impact on our business and financial performance.***

Instant booking is a feature that enables users to book a hotel reservation directly with a hotel or online travel agency partner while remaining on the TripAdvisor website. We believe that allowing users to book directly online without leaving the TripAdvisor site will result in a better user experience as well as, ultimately, additional revenue to the Company. As of June 30, 2016, we completed our global rollout of our instant booking feature and are now focused on optimizing the results of this feature.

We continue to work to close the monetization gap between instant book and our metasearch feature, primarily by streamlining our booking path to optimize user experience, seeking partners with strong branding and supply channels in order to try and achieve higher conversion rates and revenue per hotel shopper, persistently promoting the TripAdvisor brand as the place to plan a trip, compare prices, and book travel and develop additional opportunities to engage with our users. However, there is no guarantee that these initiatives will ultimately be successful. If these initiatives are not successful, and we fail to effectively optimize the results of this feature, our revenue may be materially adversely affected.

Our success depends in large part on our ability to maintain and expand relationships with partners in the travel industry, including hotel chains, online travel agencies and travel suppliers and other online travel partners. We have worked with, and continue to work with, some of these partners to "power" the instant booking function on our website and believe that these partners will also benefit from this feature, through increased reservations and more direct relationships with travelers. Some partners, however, may view this new functionality as directly competitive and take action that could adversely affect our business and financial performance. They could reduce or eliminate advertising revenue paid to us, charge for or otherwise restrict access to content, further reduce their average daily rates, decide not to make their travel inventory available to us, or decide not to provide accurate booking information. Any of these actions could have an adverse impact on our business.

***Our instant booking feature may subject us to additional and ongoing operational risks.***

We expect the instant booking functionality to significantly increase the number of transactions that will occur on our website. Even though the transaction and customer care associated with these transactions are provided by our partners, each reservation is completed on TripAdvisor's instant booking platform. Failure to effectively manage the process for instantly booking on our website, and to safeguard data that is obtained during the course of arranging for such bookings, could negatively impact our reputation and, consequently, our business.

***Growth in the use of devices other than desktop computers may negatively affect our revenue and financial results.***

Our content was originally designed for users accessing the Internet on a desktop computer. The number of people who access the Internet through devices other than desktop computers, including mobile phones and tablets, has increased substantially in the last few years. We anticipate that the rate of use of these devices will continue to grow. To address these growing user demands, we continue to extend our platform to develop mobile phone and tablet applications. However, currently, we monetize users of mobile phone devices at a significantly lower rate compared to users who access our websites through desktop computers and tablets. In addition, given the size and technical limitations of these mobile phone devices, mobile consumers may not be willing to download

multiple apps from multiple companies providing similar service and instead prefer to use one or a limited number of apps for their hotel, restaurant and attractions activity. The consumer experience with mobile apps as well as brand recognition and loyalty are likely to become increasingly important.

As a result, we continue to develop and improve upon our mobile app and websites and mobile phone monetization strategies. If we are unable to continue to rapidly innovate and create new, user-friendly and differentiated mobile offerings and efficiently and effectively advertise and distribute on these platforms, or if our mobile offerings are not used by consumers, our future growth and results of operations could be negatively impacted.

***Declines or disruptions in the economy in general and travel industry in particular could adversely affect our businesses and financial performance.***

Our businesses and financial performance are affected by the health of the global economy generally as well as the travel industry and leisure travel in particular. Sales of travel services tend to decline or grow more slowly during economic downturns and recessions when consumers engage in less discretionary spending, are concerned about unemployment or inflation, have reduced access to credit or experience other concerns that reduce their ability or willingness to travel. The global economy may be adversely impacted by unforeseen events beyond our control including acts of terrorism, unusual weather patterns, natural disasters, political instability and health concerns (including epidemics or pandemics such as Zika virus, Ebola, H1N1 and SARS), defaults on government debt, significant increases in fuel and energy costs, tax increases and other matters that could reduce discretionary spending, tightening of credit markets and further declines in consumer confidence. Decreased travel expenditures could reduce the demand for our services, thereby causing a reduction in revenue.

In addition, the uncertainty of macro-economic factors and their impact on consumer behavior, which may differ across regions, makes it more difficult to forecast industry and consumer trends and the timing and degree of their impact on our markets and business, which in turn could adversely affect our ability to effectively manage our business and adversely affect our results of operations.

On June 23, 2016, the United Kingdom held a referendum in which a majority of voters voted to exit the European Union (“Brexit”). Negotiations are expected to commence to determine the future terms of the United Kingdom’s relationship with the European Union, including, among other things, the terms of trade between the United Kingdom and the European Union. The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could adversely affect European and global economic or market conditions and could contribute to instability in global financial markets. Any of these effects of Brexit, and others we cannot anticipate, may have a negative effect on the travel industry and may adversely affect our business.

***We rely on the value of our brand and consumer trust in our brand. If we are not able to maintain and enhance our brand, or if events occur that damage our reputation and brand, our business may be harmed.***

We believe that the TripAdvisor brand has contributed significantly to our success and that maintaining and enhancing our brand is critical to expanding our base of users, to creating content and to attracting advertisers. As a result, we invest significantly in brand marketing. We expect these investments to continue, or even increase, as a result of a variety of factors, including increased spending from competitors, the increasing costs of supporting multiple brands, expansion into geographies and products where our brands are less well known, inflation in media pricing, and the continued emergence and relative traffic share growth of search engines as destination sites for travelers. Such efforts may not maintain or enhance consumer awareness of our brands and, even if we are successful in our branding efforts, such efforts may not be cost-effective or as efficient as they have been historically. If we are unable to maintain or enhance consumer awareness of our brands or to generate demand in a cost-effective manner, it would have a material adverse effect on our business and financial performance.

We receive significant media coverage in our various geographic markets. Unfavorable publicity regarding, for example, our practices relating to privacy and data protection, product changes, competitive pressures, the accuracy of user-generated content, product quality, litigation or regulatory activity, could adversely affect our reputation with our users and our advertisers. Such negative publicity also could have an adverse effect on the size, engagement, and loyalty of our user base and result in decreased revenue, which could adversely affect our business and financial results.

***We operate in an increasingly competitive global environment and our failure to compete effectively could reduce our market share and harm our financial performance.***

We face competition for content, users, advertisers, online travel search and price comparison services (or hotel metasearch) and online reservations. We also face competition from large companies that also offer comprehensive on-line resources for destinations, lodging, attractions and restaurants. Many of our competitors have significantly greater and more diversified resources than we do and may be able to leverage other aspects of their business to enable them to compete more effectively against us.

More specifically:

- For content, we face competition from large online portals, social networking sites and search engines, such as Google, Facebook, Yahoo and Baidu, which competition will only increase should they choose to compete more directly with us in the travel review space, and create commercially valuable online content at significant scale. For example, Google + Local, with its aggregated reviews and local recommendations, competes with us and Google's access to more comprehensive data regarding user search queries through its search algorithms gives it a significant competitive advantage over other companies in the industry, including us. In addition, if significant numbers of users adopt Facebook's newly released Graph Search to get travel recommendations, it could have the effect of reducing traffic and user engagement on TripAdvisor.
- We face competition from online travel agents, such as Expedia and Priceline (and their subsidiaries), and this competition may increase to the extent that these online travel agents accumulate and develop a comprehensive offering of travel-related reviews and resources.
- We face competition from travel service providers such as major hotel companies, many of which have their own websites to which they drive business. Major hotel companies may also attempt to improve their competitive position by offering lower room rates, better room availability or additional features or amenities through their reservation service than are available through services like ours.
- We also face competition from wholesalers, tour operators, traditional offline travel agencies and operators of travel industry reservation databases such as Galileo, Travelport, Amadeus and Sabre.
- In addition, we compete with newspapers, magazines and other traditional media companies that provide offline and online advertising opportunities.
- In our vacation rental business, we face competition from several companies, including HomeAway (a subsidiary of Expedia) and Airbnb, Inc., both of whom have a larger inventory of rooms available.
- In our restaurant reservation and attractions business, we face competition from certain companies like OpenTable (a subsidiary of Priceline), SeatMe (which is owned by Yelp) and Table8 (which was launched by Amazon) as well as other regional players operating in various parts of the world.

Many of our competitors have significantly greater financial, technical, marketing and other resources compared to us and have expertise in developing online commerce and facilitating Internet traffic as well as large client bases. We expect to face additional competition as other established and emerging companies enter the travel advertising market.

Certain of the companies we do business with, including some of our partners, are also our competitors. The consolidation of our competitors and partners, including Expedia (through its acquisitions of Trivago, Orbitz, Travelocity, and HomeAway) and Priceline (through its acquisitions of Kayak and OpenTable), may affect our relative competitiveness and our partner relationships. Competition and consolidation could result in higher traffic acquisition costs, reduced margins on our advertising services, loss of market share, reduced customer traffic to our websites and reduced advertising by travel companies on our websites. For example, Google has taken steps to appeal more directly to travel customers, which could lead to diversion of customer traffic to their own websites or those of a favored partner, or undermine our ability to obtain prominent placement in paid or unpaid search results at a reasonable cost, or at all. Competition in our industry may result in pricing pressure, loss of market share or decreased member engagement, any of which could adversely affect our business and financial performance.

***We are regularly subject to claims, suits, government investigations, and other proceedings that may result in adverse outcomes.***

We are regularly subject to claims, suits, government investigations and other proceedings involving competition, intellectual property, privacy and data protection, consumer protection, tax, labor and employment, commercial disputes, content generated by our users, free speech issues, goods and services offered by advertisers or publishers using our platforms, and other matters. In addition, our businesses face intellectual property litigation that exposes us to the risk of exclusion and cease and desist orders, which could limit our ability to sell products and services.

Such claims, suits, and government investigations are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, any of these types of legal proceedings can have an adverse impact on us because of legal costs, diversion of management resources, injunctions or damage awards and other factors. Determining reserves for our pending litigation is a complex, fact-intensive process that requires significant judgment. It is possible that a resolution of one or more such proceedings could result in substantial fines and penalties that could adversely affect our business, consolidated financial position, results of operations, or cash flows in a particular period. These proceedings could also result in reputational harm, criminal sanctions, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, requiring a change in our business

practices or other field action, or requiring development of non-infringing or otherwise altered products or technologies. Any of these consequences could adversely affect our business and results of operations.

***We are dependent upon the quality of traffic in our network to provide value to online advertisers, and any failure in our quality control could have a material adverse effect on the value of our websites to our advertisers and adversely affect our revenue.***

We use technology and processes to monitor the quality of, and to identify metrics associated with, the Internet traffic that we deliver to online advertisers. These metrics are used to not only identify the value of advertising on our website but also to identify low quality clicks such as non-human processes, including robots, spiders or other software; the mechanical automation of clicking; and other types of invalid clicks or click fraud. Even with such monitoring in place, there is a risk that a certain amount of low-quality traffic, or traffic that online advertisers deem to be invalid, will be delivered to such online advertisers. As a result, we may be required to credit amounts owed to us by our advertisers. Furthermore, low-quality or invalid traffic may be detrimental to our relationships with advertisers, and could adversely affect our advertising pricing and revenue.

***We rely on assumptions, estimates and data to calculate certain of our key metrics, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.***

We believe that certain metrics are key to our business, including unique visitors, hotel shoppers, revenue per hotel shopper, mobile usage and engagement metrics, and number of reviews and opinions. As the industry in which we operate continues to evolve and as our business continues to evolve, so too might the metrics by which we evaluate our business. While these numbers are based on what we believe to be reasonable estimates, there are inherent challenges in calculating these metrics and our methodologies for tracking these metrics may change over time. For example, a single person may have multiple accounts or browse the internet on multiple browsers or devices, some users may restrict our ability to accurately identify them across visits, some mobile applications automatically contact our servers for regular updates with no user action, and we are not always able to capture user information on all of our platforms. As such, the calculations of our unique visitors may not accurately reflect the number of people actually visiting our platforms. Also if the internal tools we use to track these metrics under-count or over-count performance or contain algorithm or other technical errors, the data we report may not be accurate. Finally, we regularly review and may adjust our methodologies for calculating our internal metrics to improve their accuracy. Accordingly readers should not place undue reliance on these numbers.

We calculate our metrics, primarily using internal tools, which are not independently verified by a third party. We continue to improve upon our tools and methodologies to capture data and believe that our current metrics are accurate; however, ongoing improvement of our tools and methodologies could cause inconsistency between current data and previously reported data, which could confuse investors or lead to questions about the integrity of our data.

***We rely on information technology to operate our business and remain competitive, and any failure to adapt to technological developments or industry trends could harm our businesses.***

We depend on the use of sophisticated information technologies and systems. As our operations grow in size and scope, we must continuously improve and upgrade our systems and infrastructure while maintaining or improving the reliability and integrity of our systems and infrastructure. Our future success also depends on our ability to adapt our services and infrastructure to meet rapidly evolving consumer trends and demands while continuing to improve the performance, features and reliability of our services in response to competitive service and product offerings. The emergence of alternative platforms such as mobile phone and tablet devices and the emergence of niche competitors who may be able to optimize products, services or strategies for such platforms will require new investment in technology. New developments in other areas, such as cloud computing, could also make it easier for competition to enter our markets due to lower up-front technology costs. In addition, we may not be able to maintain our existing systems or replace or introduce new technologies and systems as quickly as we would like or in a cost-effective manner.

***If we do not continue to innovate and provide tools and services that are useful to travelers, we may not remain competitive, and our business and financial performance could suffer.***

Our success depends in part on continued innovation to provide features and services that make our websites and mobile phone and tablet applications useful for travelers. Our competitors are continually developing innovations in online travel-related services and features. As a result, we are continually working to improve our business model and user experience in order to drive user traffic and conversion rates. We can give no assurances that the changes we make will yield the benefits we expect and will not have adverse impacts that we did not anticipate. If we are unable to continue offering innovative products and services and quality features that travelers want to use, existing users may become dissatisfied and use competitors' offerings and we may be unable to attract additional users, which could adversely affect our business and financial performance.

***Our culture emphasizes rapid innovation and prioritizes user engagement over short-term financial results.***

We operate in a culture that encourages rapid development and release of new and improved products, which may at times result in unintended consequences or decisions that are poorly received by users or advertisers. Our culture also prioritizes user engagement, or website “stickiness,” over short-term financial results. We have taken actions in the past and may continue to make product decisions going forward that have the effect of reducing our short-term revenue or profitability if we believe that the decisions benefit the aggregate user experience, conversion rates and/or pricing, thereby ultimately improving our financial performance over the long-term. The short-term reductions in revenue or profitability could be more severe than we anticipate or these decisions may not produce the long-term benefits that we expect, in which case our user growth and engagement, our relationships with users and advertisers, and our business and results of operations could be harmed.

***The online vacation rental market is rapidly evolving and if we fail to predict the manner in which the market develops, our business and prospects may suffer.***

We offer vacation rental services on our TripAdvisor-branded sites as well as through our U.S.-based FlipKey and Vacation Home Rentals and European-based Holiday Lettings, HouseTrip and Numba businesses. The online vacation rental market is rapidly evolving in many respects, including from a business and marketing perspective as well as the regulatory environment. We operate in various disparate jurisdictions and markets and have limited insight into trends that may develop in those markets and may affect our business. Since we began offering such services, there have been and continue to be significant business, marketing and regulatory developments. Operating in new and untested jurisdictions requires significant management attention and financial resources. We cannot assure that our expansion efforts will be successful, and the investment and additional resources required to establish operations and manage growth may not produce the desired levels of revenue or profitability.

***If we fail to attract and maintain a critical mass of vacation rental listings and travelers, our vacation rental marketplaces will become less valuable and this may have a negative impact on our business.***

In our vacation rental business, revenue is generated when owners and/or travelers pay us fees upon booking a transaction, owners or managers pay us fees to list and market vacation rental properties to users who visit the websites comprising our marketplace and property managers pay us fees for email and telephone leads from potential travelers or fees upon booking a transaction. As a result, our success in this area primarily depends on our ability to attract owners, managers, travelers and advertisers to our marketplace. If property owners and managers do not perceive the benefits of marketing their properties through our websites, or elect to list them with a competitor instead of listing with us, our volume of new listings and listing renewals may suffer. As a result, we may be unable to offer a sufficient supply and variety of vacation properties to attract travelers to our websites. Larger competitors already exist in the vacation rental space, with significantly more users, listed properties and financial resources.

***We may be subject to claims that we violated intellectual property rights of others and these claims can be extremely costly to defend and could require us to pay significant damages and limit our ability to operate.***

Companies in the Internet and technology industries, and other patent and trademark holders seeking to profit from royalties in connection with grants of licenses, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of those intellectual property rights. We have received in the past, and may in the future receive, notices that claim we have misappropriated or misused other parties’ intellectual property rights. Any intellectual property claim against us, regardless of merit, could be time-consuming and expensive to settle or litigate and could divert management’s attention and other resources. These claims also could subject us to significant liability for damages and could result in our having to stop using technology or content found to be in violation of another party’s rights. We might be required or may opt to seek a license for rights to intellectual property held by others, which may not be available on commercially reasonable terms, or at all. Even if a license is available, we could be required to pay significant royalties, which would increase our operating expenses. We may also be required to develop alternative non-infringing technology, or content, which could require significant effort and expense and make us less competitive in the relevant market. Any of these results could harm our business and financial performance.



***Investment in new business strategies and acquisitions could disrupt our ongoing business and present new challenges and risks.***

We have invested, and in the future may invest, in new business strategies or acquisitions. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, greater than expected liabilities and expenses, inadequate return of capital, and issues not discovered in our investigations and evaluations of those strategies and acquisitions. We may decide to make minority investments, including through joint ventures, in which we have limited or no management or operational control. The controlling person in such case may have business interests, strategies or goals that are inconsistent with ours, and decisions of the company or venture in which we invested may result in harm to our reputation or adversely affect the value of our investment. Further, we may issue shares of our common stock in these transactions, which could result in dilution to our stockholders.

***If the businesses we have acquired or invested in do not perform as expected or we are unable to effectively integrate acquired businesses, our operating results and prospects could be harmed.***

We have acquired a number of businesses in the past and our future growth may depend, in part, on future acquisitions, any of which could be material to our financial condition and results of operations. There are certain financial and operational risks related to acquisitions that may have a material impact on our business including, but not limited to, the following:

- Expected and unexpected costs incurred in identifying and pursuing acquisitions, and performing due diligence on potential acquisition targets that may or may not be successful;
- Use of cash resources and incurrence of debt and contingent liabilities in funding acquisitions that may limit other potential uses of our cash, including stock repurchases, dividend payments and retirement of outstanding indebtedness;
- Amortization expenses related to acquired intangible assets and other adverse accounting consequences;
- Diversion of management's attention or other resources from our existing business;
- Difficulties and expenses in integrating the operations, products, technology, privacy protection systems, information systems or personnel of the acquired company;
- The assumption of known and unknown debt and liabilities of the acquired company, including costs associated with litigation and other claims relating to the acquired company;
- Failure of any acquired company to achieve anticipated revenues, earnings or cash flows or to retain key management or employees;
- Failure to generate adequate returns on acquisitions and investments;
- Entrance into markets in which we have no direct prior experience and increased complexity in our business;
- Impairment of goodwill or other intangible assets such as trademarks or other intellectual property arising from acquisitions; and
- Adverse market reaction to acquisitions.

Moreover, we rely heavily on the representations and warranties provided to us by the sellers of acquired companies, including as they relate to ownership and rights in intellectual property and compliance with laws and contractual requirements. Our failure to address these risks or other problems encountered in connection with past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and harm our business generally.

***If we fail to manage our growth effectively, our brand, results of operations and business could be harmed.***

We have experienced rapid growth in our headcount and operations, which places substantial demands on management and our operational infrastructure. We continue to make substantial investments in our technology, sales and marketing and community management organizations. As we continue to grow, we must effectively integrate, develop and motivate a large number of new employees, including employees in international markets, while maintaining the beneficial aspects of our company culture. If we do not manage the growth of our business and operations effectively, the quality of our platform and efficiency of our operations could suffer, which could harm our brand, results of operations and business.

***Our international operations involve additional risks and our exposure to these risks increases as our business continues to expand globally.***

We operate in a number of jurisdictions outside of the United States and continue to expand our international operations. Many of these regions have different economic conditions, languages, currencies, consumer expectations, levels of consumer acceptance and

use of the Internet for commerce, legislation, regulatory environments (including labor laws and customs), tax laws and levels of political stability. We are subject to associated risks typical of international businesses, including, but not limited to, the following:

- Political instability;
- Threatened or actual acts of terrorism;
- Ability to comply with additional laws applicable to companies operating internationally as well as local laws and regulations, including the Foreign Corrupt Practices Act and U.K. Bribery Act, data privacy requirements, labor laws and anti-competition regulations;
- Diminished ability to legally enforce contractual rights;
- Increased risk and limits on enforceability of intellectual property rights;
- Restrictions on, or adverse consequences related to, the withdrawal of non-U.S. investment and earnings;
- Restrictions on repatriation of cash as well as restrictions on investments in operations in certain countries;
- Financial risk arising from transactions in multiple currencies as well as currency exchange restrictions;
- Slower adoption of the Internet as an advertising, broadcast and commerce medium in certain of those markets as compared to the United States;
- Difficulties in managing staff and operations due to distance, time zones, language and cultural differences; and
- Uncertainty regarding liability for services, content and intellectual property rights, including uncertainty as a result of local laws and lack of precedent.

We have a business operating in China, which creates particular risks and uncertainties relating to the laws in China. The laws and regulations of China restrict foreign investment in areas including air-ticketing and travel agency services, Internet content provision, mobile communication and related businesses. Although we have established effective control of our Chinese business through a series of agreements, future developments in the interpretation or enforcement of Chinese laws and regulations or a dispute relating to these agreements could restrict our ability to operate or restructure this business or to engage in strategic transactions. The success of this business, and of any future investments in China, is subject to risks and uncertainties regarding the application, development and interpretation of China's laws and regulations.

Furthermore, we are also accumulating a greater portion of our cash flows in foreign jurisdictions than previously, which we consider indefinitely reinvested. The repatriation of such funds for use in the United States, including for corporate purposes such as acquisitions, stock repurchases, dividends or debt refinancings, may result in additional U.S. income tax expense and higher cost for such capital.

***The loss of one or more of our key personnel, or our failure to attract and retain other highly qualified personnel in the future, could harm our business.***

Our future success depends upon the continued contributions of our senior corporate management and other key employees. In particular, the contributions of Stephen Kaufer, our President and Chief Executive Officer, are critical to our overall management. We cannot ensure that we will be able to retain the services of these individuals, and the loss of one or more of our key personnel could seriously harm our business. We do not maintain any key person life insurance policies.

In addition, competition remains intense for well-qualified employees in certain aspects of our business, including software engineers, developers, product management and development personnel, and other technology professionals. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate existing employees. If we do not succeed in attracting well-qualified employees or retaining or motivating existing employees, our business would be adversely affected.

***A failure to comply with current laws, rules and regulations or changes to such laws, rules and regulations and other legal uncertainties may adversely affect our business or financial performance.***

Our business and financial performance could be adversely affected by unfavorable changes in or interpretations of existing laws, rules and regulations or the promulgation of new laws, rules and regulations applicable to us and our business, including those relating to the Internet and online commerce, Internet advertising, consumer protection, data security and privacy. Unfavorable changes could decrease demand for products and services, limit marketing methods and capabilities, increase costs and/or subject us to additional liabilities.

For example, there is, and will likely continue to be, an increasing number of laws and regulations pertaining to the Internet and online commerce that may relate to liability for information retrieved from or transmitted over the Internet, online editorial and user-generated content, user privacy, data security, behavioral targeting and online advertising, taxation, liability for third-party activities and the quality of products and services. Our current business partner arrangements with third parties, including Facebook, could be negatively impacted to the extent that more restrictive privacy laws or regulations are enacted, particularly in the United States or European Union. In addition, enforcement authorities in the United States continue to rely on their authority under existing consumer protection laws to take action against companies relating to data privacy and security practices. The growth and development of online commerce may prompt calls for more stringent consumer protection laws and more aggressive enforcement efforts, which may impose additional burdens on online businesses generally.

We also have been subject, and we will likely be subject in the future, to inquiries from time to time from regulatory bodies concerning compliance with consumer protection, competition, tax and travel industry-specific laws and regulations. The failure of our businesses to comply with these laws and regulations could result in fines and/or proceedings against us by governmental agencies and/or consumers, which if material, could adversely affect our business, financial condition and results of operations. Further, if such laws and regulations are not enforced equally against other competitors in a particular market, our compliance with such laws may put us a competitive disadvantage vis-à-vis competitors who do not comply with such requirements.

The promulgation of new laws, rules and regulations, or the new interpretation of existing laws, rules and regulations, in each case that restrict or otherwise unfavorably impact the ability or manner in which we provide services could require us to change certain aspects of our business, operations and commercial relationships to ensure compliance, which could decrease demand for services, reduce revenues, increase costs and/or subject the company to additional liabilities.

***We cannot be sure that our intellectual property is protected from copying or use by others, including potential competitors.***

Our websites rely on content, brands and technology, much of which is proprietary. We protect our proprietary content, brands and technology by relying on a combination of trademarks, copyrights, trade secrets, patents and confidentiality agreements. In connection with our license agreements with third parties, we seek to control access to, and the use and distribution of, proprietary technology, content and brands. Even with these precautions, it may be possible for another party to copy or otherwise obtain and use our proprietary technology, content or brands without authorization or to develop similar technology, content or brands independently. Effective intellectual property protection may not be available in every jurisdiction in which our services are made available, and policing unauthorized use of our intellectual property is difficult and expensive. Therefore, in certain jurisdictions, we may be unable to protect our intellectual property adequately against unauthorized third-party copying or use, which could adversely affect our business or ability to compete. We cannot be sure that the steps we have taken will prevent misappropriation or infringement of our intellectual property. Any misappropriation or violation of our rights could have a material adverse effect on our business. Furthermore, we may need to go to court or other tribunals or administrative bodies in order to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. These proceedings might result in substantial costs and diversion of resources and management attention. Our failure to protect our intellectual property in a cost-efficient or effective manner could have a material adverse effect on our business and ability to protect our technology, content and brands.

We currently license from third parties and incorporate the technologies and content into our websites. As we continue to introduce new services that incorporate new technologies and content, we may be required to license additional technology, or content. We cannot be sure that such technology or content will be available on commercially reasonable terms, if at all.

***System interruption and the lack of redundancy in some of our internal information systems may harm our business.***

We rely on computer systems to deliver content and services. We have experienced and may in the future experience system interruptions that make some or all of these systems unavailable or prevent us from efficiently providing content and services to users and third parties. Significant interruptions, outages or delays in internal systems, or systems of third parties that we rely upon, or deterioration in the performance of any such systems, would impair our ability to process transactions or display content and decrease the quality of the services we offer to travelers and users. These interruptions could include security intrusions and attacks on our systems for fraud or service interruption (called “denial of service” or “bot” attacks). If we were to experience frequent or persistent system failures, our business, reputation, and brand could be harmed.

We do not have a completely formalized or comprehensive disaster recovery plan in every geographic region in which we conduct business and our backup systems and disaster recovery, business continuity /or contingency plans for certain critical aspects of our operations or business processes may not be sufficient. Fire, flood, power loss, telecommunications failure, break-ins, earthquakes, acts of war or terrorism, acts of God, computer viruses, electronic intrusion attempts from both external and internal sources and similar events or disruptions may damage or impact or interrupt computer or communications systems or business processes at any time. Although we have put measures in place to protect certain portions of our facilities and assets, any of these

events could cause system interruption, delays and loss of critical data, and could prevent us from providing content and services to users, travelers and/or third parties for a significant period of time. If we experience frequent or persistent system failures, our reputation and brand could be permanently and significantly harmed. In addition, remediation may be costly and we may not have adequate insurance to cover such costs. Moreover, the costs of enhancing infrastructure to attain improved stability and redundancy may be time consuming and expensive and may require resources and expertise that are difficult to obtain.

***Our processing, storage and use of personal information and other data exposes us to risks of external and internal security breaches and could give rise to liabilities.***

There are numerous laws regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other consumer data, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. In addition, an increasing number of our users are providing consumer data (including credit card data). The security of data when engaging in electronic commerce is essential to maintaining consumer and travel service provider confidences in our services. We strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection. Any failure or perceived failure by us to comply with our privacy policies, privacy-related obligations to users or other third parties, or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other user data, may result in governmental enforcement actions, litigation or public statements that could harm our reputation and cause our customers and members to lose trust in us, which could have an adverse effect on our business, brand, market share and results of operations.

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the Internet have recently come under increased public scrutiny. The U.S. Congress and federal agencies, including the Federal Trade Commission and the Department of Commerce, are reviewing the need for greater regulation for the collection and use of information concerning consumer behavior on the Internet. Various U.S. courts are also considering the applicability of existing federal and state statutes, including computer trespass and wiretapping laws, to the collection and exchange of information online. The European Union has recently adopted a new data protection legal framework which will become applicable by May 2018. We continue to evaluate this new framework and its impact on our business but we currently believe that this will result in a greater compliance burden and increased costs of compliance.

Potential security breaches to our systems, whether resulting from internal or external sources, could significantly harm our business. A party, whether internal or external, that is able to circumvent our security systems could misappropriate user information or proprietary information or cause significant interruptions in our operations. In the past, we have experienced “denial-of-service” type attacks on our systems that have made portions of our websites unavailable for short periods of time as well as unauthorized access of our systems and data. We have acquired a number of companies over the years and may continue to do so in the future. While we make significant efforts to address any information technology security issues with respect to our acquisitions, we may still inherit such risks when we integrate the acquired businesses. We may need to expend significant resources to protect against security breaches or to investigate and address problems caused by breaches, and reductions in website availability could cause a loss of substantial business volume during the occurrence of any such incident. Because the techniques used to sabotage security change frequently, often are not recognized until launched against a target and may originate from less regulated and remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventive measures. Security breaches could result in negative publicity, damage to reputation, exposure to risk of loss or litigation and possible liability due to regulatory penalties and sanctions. Security breaches could also cause travelers and potential users to lose confidence in our security, which would have a negative effect on the value of our brand. Failure to adequately protect against attacks or intrusions, whether for our own systems or systems of vendors, could expose us to security breaches that could have an adverse impact on our financial performance.

We also face risks associated with security breaches affecting third parties conducting business over the Internet. Much of our business is conducted with third party marketing affiliates or, more recently, through business partners powering our instant booking feature. In addition, we use third parties to process credit card payments. A security breach at such third party could be perceived by consumers as a security breach of our systems and could result in negative publicity, damage our reputation, expose us to risk of loss or litigation and possible liability and subject us to regulatory penalties and sanctions. In addition, such third parties may not comply with applicable disclosure requirements, which could expose us to liability.

***We face increased risks as the level of our debt increases.***

On June 26, 2015, we entered into a new credit agreement with respect to a \$1 billion five-year revolving credit facility. This arrangement includes restrictive covenants that may impact the way we manage our business and may limit our ability to secure significant additional financing in the future on favorable terms. Our ability to secure additional financing and satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, which is subject to then prevailing general economic and credit market conditions, including interest rate levels and the availability of credit generally,

and financial, business and other factors, many of which are beyond our control. In light of periodic uncertainty in the capital and credit markets, there can be no assurance that sufficient financing will be available on desirable or even any terms to fund investments, acquisitions, stock repurchases, dividends, debt refinancing or extraordinary actions or that counterparties in any such financings would honor their contractual commitments.

***We have indebtedness which could adversely affect our business and financial condition.***

We currently have outstanding approximately \$20 million in long-term debt and approximately \$978 million of available borrowing capacity on our revolving credit facility. Risks relating to our indebtedness include:

- Increasing our vulnerability to general adverse economic and industry conditions;
- Requiring us to dedicate a portion of our cash flow from operations to principal and interest payments on our indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, acquisitions and investments and other general corporate purposes;
- Making it more difficult for us to optimally capitalize and manage the cash flow for our businesses;
- Limiting our flexibility in planning for, or reacting to, changes in our businesses and the markets in which we operate;
- Possibly placing us at a competitive disadvantage compared to our competitors that have less debt;
- Limiting our ability to borrow additional funds or to borrow funds at rates or on other terms that we find acceptable; and
- Exposing us to the risk of increased interest rates because our outstanding debt is expected to be subject to variable rates of interest.

In addition, it is possible that we may need to incur additional indebtedness in the future in the ordinary course of business. The terms of our revolving credit facility will allow us to incur additional debt subject to certain limitations; however, there is no assurance that additional financing will be available to us on terms favorable to us, if at all. In addition, if new debt is added to current debt levels, the risks described above could intensify.

***The agreements that govern our revolving credit facility contain various covenants that limit our discretion in the operation of our business and also require us to meet financial maintenance tests and other covenants. The failure to comply with such tests and covenants could have a material adverse effect on us.***

We are party to a credit agreement providing for the revolving credit facility. The agreements that govern the revolving credit facility contain various covenants, including those that limit our ability to, among other things:

- Incur indebtedness;
- Pay dividends on, redeem or repurchase our capital stock;
- Enter into certain asset sale transactions, including partial or full spin-off transactions;
- Enter into secured financing arrangements;
- Enter into sale and leaseback transactions; and
- Enter into unrelated businesses.

These covenants may limit our ability to optimally operate our business. In addition, our revolving credit facility requires that we meet certain financial tests, including a leverage ratio test. Any failure to comply with the restrictions of our credit facility may result in an event of default under the agreements governing such facilities. Such default may allow the creditors to accelerate the debt incurred thereunder. In addition, lenders may be able to terminate any commitments they had made to supply us with further funds (including periodic rollovers of existing borrowings).

***Our effective tax rate is impacted by a number of factors that could have a material impact on our financial results and could increase the volatility of those results.***

Due to the global nature of our business, we are subject to income taxes in the United States and other foreign jurisdictions. In the event we incur net income in certain jurisdictions but incur losses in other jurisdictions, we generally cannot offset the income from one jurisdiction with the loss from another, which could increase our effective tax rate. Furthermore, significant judgment is required to calculate our worldwide provision for income taxes. In the ordinary course of our business there are many transactions and

calculations where the ultimate tax determination is uncertain. We are routinely under audit by federal, state and foreign taxing authorities. Although we believe our tax estimates are reasonable, the final determination of audits could be materially different from our historical income tax provisions and accruals. The results of an audit could have a material effect on our financial position, results of operations, or cash flows in the period or periods for which that determination is made.

Additionally, we earn an increasing portion of our income, and accumulate a greater portion of cash flow, in foreign jurisdictions, which we consider indefinitely reinvested. Any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates and incremental cash tax payments. In addition, there have been proposals to amend U.S. tax laws that would significantly impact the manner in which U.S. companies are taxed on foreign earnings. Although we cannot predict whether or in what form any legislation will pass, if enacted, it could have a material adverse impact on our U.S. tax expense and cash flows.

***We are subject to fluctuation in foreign currency exchange risk.***

We conduct a significant and growing portion of our business outside the United States but report our results in U.S. dollars. As a result, we face exposure to movements in currency exchange rates, particularly those related to the Euro, British pound sterling, Singapore dollar, Australian dollar, and Chinese renminbi. These exposures include, but are not limited to re-measurement of gains and losses from changes in the value of foreign denominated assets and liabilities; translation gains and losses on foreign subsidiary financial results that are translated into U.S. dollars upon consolidation; and planning risk related to changes in exchange rates between the time we prepare our annual and quarterly forecasts and when actual results occur. For example, there has been, and may continue to be, volatility in currency exchange rates as a result of Brexit.

Depending on the size of the exposures and the relative movements of exchange rates, if we were to choose not to hedge or were to fail to hedge effectively our exposure, we could experience a material adverse effect on our consolidated financial statements and financial condition. As seen in some recent periods, in the event of severe volatility in exchange rates the impact of these exposures can increase, and the impact on results of operations can be more pronounced. In addition, the current environment and the increasingly global nature of our business have made hedging these exposures both more complex and costly. We hedge certain short-term foreign currency exposures with the purchase of forward exchange contracts. These hedge contracts only help mitigate the impact of changes in foreign currency rates that occur during the term of the related contract period and carry risks of counter-party failure. There can be no assurance that our hedges will have their intended effects.

Significant fluctuations in currency exchange rates can affect consumer travel behavior. Volatility in foreign exchange rates and its impact on consumer behavior, which may differ across regions, makes it more difficult to forecast industry and consumer trends and the timing and degree of their impact on our markets and business, which in turn could adversely affect our ability to effectively manage our business and adversely affect our results of operations.

***We could be subject to significant tax liabilities, any of which could have a material adverse effect on our business, results of operations and financial condition.***

The application of various domestic and international tax laws, rules and regulations to our historical and new products and services is subject to interpretation by the applicable taxing authorities. These taxing authorities have become more aggressive in their interpretation and/or enforcement of such laws, rules and regulations over time, as governments are increasingly focused on ways to increase revenues. This has contributed to an increase in audit activity and harsher stances by tax authorities. While we believe we comply with applicable tax laws, rules and regulations in the jurisdictions we operate, tax authorities may determine that we owe additional taxes. Additional taxes or other assessments may be in excess of our current tax reserves or may require us to modify our business practices to reduce our exposure to additional taxes going forward, any of which could have a material adverse effect on our business, results of operations and financial condition.

Significant judgment and estimation is required in determining our worldwide tax liabilities. In the ordinary course of our business, there are transactions and calculations, including intercompany transactions and cross-jurisdictional transfer pricing, for which the ultimate tax determination is uncertain or otherwise subject to interpretation. Tax authorities may disagree with our intercompany charges, including the amount of or basis for such charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. Although we believe our tax estimates are reasonable, the final determination of tax audits could be materially different from our historical income tax provisions and accruals in which case we may be subject to additional tax liabilities, possibly including interest and penalties, which could have a material adverse effect on our cash flows, financial condition and results of operations.

In addition, under the Tax Sharing Agreement between us and Expedia entered into in connection with the spin-off of TripAdvisor from Expedia (the "Spin-Off"), we are generally required to indemnify Expedia for any taxes resulting from the Spin-Off (and any related interest, penalties, legal and professional fees, and all costs and damages associated with related stockholder litigation

or controversies) to the extent such amounts resulted from (i) any act or failure to act by us described in the covenants in the tax sharing agreement, (ii) any acquisition of our equity securities or assets or those of a member of our group, or (iii) any failure of the representations with respect to us or any member of our group to be true or any breach by us or any member of our group of any covenant, in each case, which is contained in the separation documents or in the documents relating to the IRS private letter ruling and/or the opinion of counsel.

We continue to be responsible for potential tax liabilities in connection with consolidated income tax returns filed with Expedia prior to or in connection with the Spin-Off. We are currently under an IRS audit for the 2009 and 2010 tax years, and have various ongoing state income tax audits. These audits include questioning of the timing and the amount of income and deductions and the allocation of income among various tax jurisdictions. The outcome of these matters or any other audits could subject us to significant tax liabilities.

***Amendment to existing tax laws, rules or regulations or enactment of new unfavorable tax laws, rules or regulations could have an adverse effect on our business and financial performance.***

Many of the underlying laws, rules or regulations imposing taxes and other obligations were established before the growth of the internet and e-commerce. If the tax or other laws, rules or regulations were amended, or if new unfavorable laws, rules or regulations were enacted, particularly with respect to occupancy, sales, value-added taxes, or unclaimed property, the results could increase our tax payments or other obligations, prospectively or retrospectively, subject us to interest and penalties, decrease the demand for our products and services if we pass on such costs to the consumer, result in increased costs to update or expand our technical or administrative infrastructure or effectively limit the scope of our business activities if we decided not to conduct business in particular jurisdictions. As a result, these changes could have an adverse effect on our business or financial performance.

In addition, in the past U.S. and foreign governments have introduced proposals for tax legislation, or have adopted tax laws, that could have a significant adverse effect on our tax rate, or increase our tax liabilities, the carrying value of deferred tax assets, or our deferred tax liabilities. For example, in October 2015, the Organization for Economic Co-Operation and Development (“OECD”) released a final package of measures to be implemented by member nations in response to a 2013 action plan calling for a coordinated multi-jurisdictional approach to “base erosion and profit shifting” (“BEPS”) by multinational companies. Multiple member jurisdictions, including the United States, have begun implementing recommended changes such as proposed country by country reporting beginning as early as 2016. Additional multilateral changes are anticipated in upcoming years. Any changes to national or international tax laws could impact the tax treatment of our earnings and adversely affect our profitability. Our effective tax rate in the future could also be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or the discontinuance of beneficial tax arrangements in certain jurisdictions.

We continue to work with relevant authorities and legislators to clarify our obligations under existing, new and emerging tax laws and regulations.

***Liberty TripAdvisor Holdings, Inc. currently is a controlling stockholder.***

Liberty TripAdvisor Holdings, Inc., or LTRIP, effectively controls the outcome of all matters submitted to a vote or for the consent of our stockholders (other than with respect to the election by the holders of our common stock of 25% of the members of our Board of Directors and matters as to which Delaware law requires separate class votes, including but not limited to, corporate transactions such as mergers, business combinations or dispositions of assets, the authorization or issuance of new equity or debt securities and determinations with respect to our business direction and policies). LTRIP, which has investments in other companies, may have interests that differ from those of our other stockholders and they may vote in a way with which our other stockholders may not agree or that may be adverse to other stockholders’ interests. LTRIP is not restricted from investing in other businesses involving or related to our business. Liberty’s control of us, as well as the existing provisions of our organizational documents and Delaware law, may discourage or prevent a change of control of us, which may reduce the market price of our common stock.

***We are currently relying on the “controlled company” exemption under NASDAQ Stock Market Listing Rules, pursuant to which “controlled companies” are exempt from certain corporate governance requirements otherwise applicable under NASDAQ listing rules.***

The NASDAQ Stock Market Listing Rules exempt “controlled companies,” or companies of which more than 50% of the voting power is held by an individual, a group or another company, from certain corporate governance requirements, including those requirements that:

- A majority of the Board of Directors consist of independent directors;

- Compensation of officers be determined or recommended to the Board of Directors by a majority of its independent directors or by a compensation committee comprised solely of independent directors; and
- Director nominees be selected or recommended to the Board of Directors by a majority of its independent directors or by a nominating committee that is composed entirely of independent directors.

We have in the past, currently and may in the future rely on the controlled company exemption for some of these requirements. Accordingly, our stockholders will not be afforded the same protections generally as stockholders of other NASDAQ-listed companies with respect to corporate governance for so long as we rely on these exemptions from the corporate governance requirements.

***If we are unable to successfully maintain effective internal control over financial reporting, investors may lose confidence in our reported financial information and our stock price and business may be adversely impacted.***

As a public company, we are required to maintain internal control over financial reporting and our management is required to evaluate the effectiveness of our internal control over financial reporting as of the end of each fiscal year. Additionally, we are required to disclose in our Annual Reports on Form 10-K our management's assessment of the effectiveness of our internal control over financial reporting and a registered public accounting firm's attestation report on this assessment. If we are not successful in maintaining effective internal control over financial reporting, there could be inaccuracies or omissions in the consolidated financial information we are required to file with the SEC. Additionally, even if there are no inaccuracies or omissions, we could be required to publicly disclose the conclusion of our management that our internal control over financial reporting or disclosure controls and procedures are not effective. These events could cause investors to lose confidence in our reported financial information, adversely impact our stock price, result in increased costs to remediate any deficiencies, attract regulatory scrutiny or lawsuits that could be costly to resolve and distract management's attention, limit our ability to access the capital markets or cause our stock to be delisted from NASDAQ or any other securities exchange on which we are then listed.

***The market price and trading volume of our common stock may be volatile and may face negative pressure.***

Our stock price has experienced, and could continue to experience in the future, substantial volatility. The market price of our common stock is affected by a number of factors, including the risk factors described in this section and other factors beyond our control. Factors affecting the trading price of our common stock could include:

- Quarterly variations in our or our competitors' results of operations;
- Changes in earnings estimates or recommendations by securities analysts;
- Failure to meet market expectations;
- The announcement of new products or product enhancements by us or our competitors;
- Repurchases of our common stock pursuant to our share repurchase program which could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock;
- Developments in our industry, including changes in governmental regulations; and
- General market conditions and other factors, including factors related to our operating performance or the operating performance of our competitors.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations and general economic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our common stock regardless of our actual operating performance.

***Future sales of shares of our common stock in the public market, or the perception that such sales may occur, may depress our stock price.***

For the nine months ended September 30, 2016, the average daily trading volume of our common stock on NASDAQ was approximately 2.1 million shares. If our existing stockholders or their distributees sell substantial amounts of our common stock in the public market, the market price of the common stock could decrease significantly. The perception in the public market that our existing stockholders might sell shares of common stock could also depress the trading price of our common stock. In addition, certain stockholders have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. If LTRIP or some other stockholder sells substantial amounts of our common stock in the public market, or if there is a perception in the public market that LTRIP might sell



shares of our common stock, the market price of our common stock could decrease significantly. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities.

**Anti-takeover provisions in our organizational documents and Delaware law may discourage or prevent a change of control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent attempts by our stockholders to replace or remove our current management.**

Our certificate of incorporation and bylaws contain provisions that could delay or prevent a change of control of our company or changes in our Board of Directors that our stockholders might consider favorable. Some of these provisions:

- Authorize the issuance of preferred stock which can be created and issued by the Board of Directors without prior stockholder approval, with rights senior to those of our common stock; and
- Prohibit our stockholders from filling board vacancies or calling special stockholder meetings.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our certificate of incorporation, bylaws and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our Board of Directors or initiate actions that are opposed by our then-current Board of Directors, including a merger, tender offer or proxy contest involving our company. Any delay or prevention of a change of control transaction or changes in our Board of Directors could cause the market price of our common stock to decline.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

### Unregistered Sales of Equity Securities

During the quarter ended September 30, 2016, we did not issue or sell any shares of our common stock, Class B common stock or other equity securities pursuant to unregistered transactions in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended.

### Share Repurchases

On February 15, 2013, our Board of Directors authorized the repurchase of \$250 million of our shares of common stock under a share repurchase program. The repurchase program has no expiration date but may be suspended or terminated by the Board of Directors at any time. Our Board of Directors will determine the price, timing, amount and method of such repurchases based on its evaluation of market conditions and other factors, and any shares repurchased will be in compliance with applicable legal requirements, at prices determined to be attractive and in the best interests of both the Company and its stockholders.

During the three months ended September 30, 2016, we repurchased 142,262 shares of outstanding common stock under the share repurchase program at an average price of \$59.94 per share. Below is a summary of our common stock repurchases during the third quarter of 2016, the average price paid as well as the dollar value of shares that may still be purchased as of September 30, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 to July 31	—	—	—	\$ 92,334,719
August 1 to August 31	—	—	—	\$ 92,334,719
September 1 to September 30	142,262	\$ 59.94	142,262	\$ 83,808,163
Total	<u>142,262</u>		<u>142,262</u>	

(1) These amounts include fees and commissions associated with the share repurchase.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

The exhibits listed below are filed as part of this Quarterly Report on Form 10-Q.

Exhibit No.	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	SEC File No.	Exhibit	Filing Date
10.1*	Amended and Restated 2011 Stock and Annual Incentive Plan	X				
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL: (i) Unaudited Condensed Consolidated Statements of Operations, (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income, (iii) Unaudited Condensed Consolidated Balance Sheets, (iv) Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity, (v) Unaudited Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.	X				

\* Indicates a management contract or a compensatory plan, contract or arrangement.



**TRIPADVISOR, INC.**  
**AMENDED & RESTATED**  
**2011 STOCK AND ANNUAL INCENTIVE PLAN**

**SECTION 1. PURPOSE; DEFINITIONS**

The purposes of this Plan are to give the Company a competitive advantage in attracting, retaining and motivating officers, employees, directors and/or consultants and to provide the Company and its Subsidiaries and Affiliates with a stock and incentive plan providing incentives directly linked to stockholder value and to assume and govern other awards pursuant to the adjustment of awards granted under the Expedia Long-Term Incentive Plan (as defined in the Employee Matters Agreement) in accordance with the terms of the Employee Matters Agreement (“Adjusted Awards”). Certain terms used herein have definitions given to them in the first place in which they are used. In addition, for purposes of this Plan, the following terms are defined as set forth below:

- (a) “Affiliate” means a corporation or other entity controlled by, controlling or under common control with, the Company.
- (b) “Adjusted Awards” has the meaning set forth in the preamble to Section 1.
- (c) “Applicable Exchange” means the NASDAQ or such other securities exchange as may at the applicable time be the principal market for the Common Stock.
- (d) “Award” means an Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, other stock-based award or Bonus Award granted or assumed pursuant to the terms of this Plan, including Adjusted Awards.
- (e) “Award Agreement” means a written or electronic document or agreement setting forth the terms and conditions of a specific Award.
- (f) “Board” means the Board of Directors of the Company.
- (g) “Bonus Award” means a bonus award made pursuant to Section 9.
- (h) “Cause” means, unless otherwise provided in an Award Agreement, (i) “Cause” as defined in any Individual Agreement to which the applicable Participant is a party, or (ii) if there is no such Individual Agreement or if it does not define Cause: (A) the willful or gross neglect by a Participant of his employment duties; (B) the plea of guilty or nolo contendere to, or conviction for, the commission of a felony offense by a Participant; (C) a material breach by a Participant of a fiduciary duty owed to the Company or any of its subsidiaries; (D) a material breach by a Participant of any nondisclosure, non-solicitation or non-competition obligation owed to the Company or any of its Affiliates; or (E) before a Change in Control, such other events as shall be determined by the Committee and set forth in a Participant’s Award Agreement. Notwithstanding the general rule of Section 2(c), following a Change in Control, any determination by the Committee as to whether “Cause” exists shall be subject to de novo review.
- (i) “Change in Control” has the meaning set forth in Section 10(b).

(j) “Code” means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto, the Treasury Regulations thereunder and other relevant interpretive guidance issued by the Internal Revenue Service or the Treasury Department. Reference to any specific section of the Code shall be deemed to include such regulations and guidance, as well as any successor provision of the Code.

(k) “Commission” means the Securities and Exchange Commission or any successor agency.

(l) “Committee” has the meaning set forth in Section 2(a).

(m) “Common Stock” means common stock, par value \$0.001 per share, of the Company.

(n) “Company” means TripAdvisor, Inc., a Delaware corporation or its successor.

(o) “Disability” means (i) “Disability” as defined in any Individual Agreement to which the Participant is a party, or (ii) if there is no such Individual Agreement or it does not define “Disability,” (A) permanent and total disability as determined under the Company’s long- term disability plan applicable to the Participant, or (B) if there is no such plan applicable to the Participant or the Committee determines otherwise in an applicable Award Agreement, “Disability” as determined by the Committee. Notwithstanding the above, with respect to an Incentive Stock Option, Disability shall mean Permanent and Total Disability as defined in Section 22(e)(3) of the Code and, with respect to all Awards, to the extent required by Section 409A of the Code, Disability shall mean “disability” within the meaning of Section 409A of the Code.

(p) “Disaffiliation” means a Subsidiary’s or Affiliate’s ceasing to be a Subsidiary or Affiliate for any reason (including, without limitation, as a result of a public offering, or a spinoff or sale by the Company, of the stock of the Subsidiary or Affiliate) or a sale of a division of the Company and its Affiliates.

(q) “EBITA” means for any period, operating profit (loss) plus (i) amortization, including goodwill impairment, (ii) amortization of non-cash distribution and marketing expense and non-cash compensation expense, (iii) disengagement expenses, (iv) restructuring charges, (v) non cash write-downs of assets or goodwill, (vi) charges relating to disposal of lines of business, (vii) litigation settlement amounts and (viii) costs incurred for proposed and completed acquisitions.

(r) “EBITDA” means for any period, operating profit (loss) plus (i) depreciation and amortization, including goodwill impairment, (ii) amortization of non-cash distribution and marketing expense and non-cash compensation expense, (iii) disengagement expenses, (iv) restructuring charges, (v) non cash write-downs of assets or goodwill, (vi) charges relating to disposal of lines of business, (vii) litigation settlement amounts and (viii) costs incurred for proposed and completed acquisitions.

(s) “Eligible Individuals” means directors, officers, employees and consultants of the Company or any of its Subsidiaries or Affiliates.

(t) “Employee Matters Agreement” means the Employee Matters Agreement by and

between Expedia and the Company dated as of December 20, 2011.

(u) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

(v) “Expedia” means Expedia, Inc., a Delaware corporation.

(w) “Fair Market Value” means, unless otherwise determined by the Committee, the closing price of a share of Common Stock on the Applicable Exchange on the date of measurement, or if Shares were not traded on the Applicable Exchange on such measurement date, then on the next preceding date on which Shares were traded, all as reported by such source as the Committee may select. If the Common Stock is not listed on a national securities exchange, Fair Market Value shall be determined by the Committee in its good faith discretion, provided that such determination shall be made in a manner consistent with any applicable requirements of Section 409A of the Code.

(x) “Free-Standing SAR” has the meaning set forth in Section 5(b).

(y) “Grant Date” means (i) the date on which the Committee by resolution selects an Eligible Individual to receive a grant of an Award and determines the number of Shares to be subject to such Award or the formula for earning a number of shares or cash amount, (ii) such later date as the Committee shall provide in such resolution or (iii) the initial date on which an Adjusted Award was granted under the Expedia Long-Term Incentive Plan.

(z) “Incentive Stock Option” means any Option that is designated in the applicable Award Agreement as an “incentive stock option” within the meaning of Section 422 of the Code, and that in fact so qualifies.

(aa) “Individual Agreement” means an employment, consulting or similar agreement between a Participant and the Company or one of its Subsidiaries or Affiliates.

(bb) “NASDAQ” means the National Association of Securities Dealers Inc. Automated Quotation System.

(cc) “Nonqualified Option” means any Option that is not an Incentive Stock Option.

(dd) “Option” means an Award described under Section 5.

(ee) “Outside Directors” has the meaning set forth in Section 11(a).

(ff) “Participant” means an Eligible Individual to whom an Award is or has been granted.

(gg) “Performance Goals” means the performance goals established by the Committee in connection with the grant of Restricted Stock, Restricted Stock Units or Bonus Awards or other stock-based awards. In the case of Qualified-Performance Based Awards that are intended to qualify under Section 162(m)(4)(C) of the Code, (i) such goals shall be based on the attainment of one or any combination of the following: specified levels of earnings per share from continuing operations, net profit after tax, EBITDA, EBITA, gross profit, cash generation, unit volume, market share, sales, asset quality, earnings per share, operating income, revenues, return on assets,

return on operating assets, return on equity, profits, total stockholder return (measured in terms of stock price appreciation and/or dividend growth), cost saving levels, marketing- spending efficiency, core non-interest income, change in working capital, return on capital, and/or stock price, with respect to the Company or any subsidiary, division or department of the Company that are intended to qualify under Section 162(m)(4)(C) of the Code and (ii) such Performance Goals shall be set by the Committee within the time period prescribed by Section 162(m) of the Code and related regulations. Such Performance Goals also may be based upon the attaining of specified levels of Company, Subsidiary, Affiliate or divisional performance under one or more of the measures described above relative to the performance of other entities, divisions or subsidiaries.

(hh) “Plan” means this TripAdvisor, Inc. 2011 Stock and Annual Incentive Plan, as set forth herein and as hereafter amended from time to time.

(ii) “Plan Year” means the calendar year or, with respect to Bonus Awards, the Company’s fiscal year if different.

(jj) “Qualified Performance-Based Award” means an Award intended to qualify for the Section 162(m) Exemption, as provided in Section 11.

(kk) “Restricted Stock” means an Award described under Section 6.

(ll) “Restricted Stock Units” means an Award described under Section 7.

(mm) “Retirement” means retirement from active employment with the Company, a Subsidiary or Affiliate at or after the Participant’s attainment of age 65.

(nn) “RS Restriction Period” has the meaning set forth in Section 6(b)(ii).

(oo) “RSU Restriction Period” has the meaning set forth in Section 7(b)(ii).

(pp) “Section 162(m) Exemption” means the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C) of the Code.

(qq) “Separation” has the meaning set forth in the Employee Matters Agreement.

(rr) “Share” means a share of Common Stock.

(ss) “Stock Appreciation Right” has the meaning set forth in Section 5(b).

(tt) “Subsidiary” means any corporation, partnership, joint venture, limited liability company or other entity during any period in which at least a 50% voting or profits interest is owned, directly or indirectly, by the Company or any successor to the Company.

(uu) “Tandem SAR” has the meaning set forth in Section 5(b).



(vv) “Term” means the maximum period during which an Option or Stock Appreciation Right may remain outstanding, subject to earlier termination upon Termination of Employment or otherwise, as specified in the applicable Award Agreement.

(ww) “Termination of Employment” means the termination of the applicable Participant’s employment with, or performance of services for, the Company and any of its Subsidiaries or Affiliates. Unless otherwise determined by the Committee, if a Participant’s employment with, or membership on a board of directors of, the Company and its Affiliates terminates but such Participant continues to provide services to the Company and its Affiliates in a non-employee director capacity or as an employee, as applicable, such change in status shall not be deemed a Termination of Employment. A Participant employed by, or performing services for, a Subsidiary or an Affiliate or a division of the Company and its Affiliates shall be deemed to incur a Termination of Employment if, as a result of a Disaffiliation, such Subsidiary, Affiliate, or division ceases to be a Subsidiary, Affiliate or division, as the case may be, and the Participant does not immediately thereafter become an employee of (or service provider for), or member of the board of directors of, the Company or another Subsidiary or Affiliate. Temporary absences from employment of ninety (90) days or less because of illness, vacation or leave of absence and transfers among the Company and its Subsidiaries and Affiliates shall not be considered Termination of Employment. For the avoidance of doubt, the Separation shall not constitute a Termination of Employment for purposes of any Adjusted Award. Notwithstanding the foregoing, with respect to any Award that constitutes “nonqualified deferred compensation” within the meaning of Section 409A of the Code, “Termination of Employment” shall mean a “separation from service” as defined under Section 409A of the Code.

## **SECTION 2. ADMINISTRATION**

(a) Committee. The Plan shall be administered by the Compensation Committee of the Board or such other committee of the Board as the Board may from time to time designate (the “Committee”), which shall be composed of not less than two directors, and shall be appointed by and serve at the pleasure of the Board. The Committee shall, subject to Section 11, have plenary authority to grant Awards pursuant to the terms of the Plan to Eligible Individuals. Among other things, the Committee shall have the authority, subject to the terms of the Plan and the Employee Matters Agreement (including the original terms of the grant of the Adjusted Award):

(i) to select the Eligible Individuals to whom Awards may from time to time be granted;

(ii) to determine whether and to what extent Incentive Stock Options, Nonqualified Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, other stock-based awards, Bonus Awards or any combination thereof, are to be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder or the amount of any Bonus Award;

(iv) to determine the terms and conditions of each Award granted hereunder, based on such factors as the Committee shall determine;

(v) subject to Section 12, to modify, amend or adjust the terms and conditions of

any Award, at any time or from time to time;

(vi) to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable;

(vii) subject to Section 11, to accelerate the vesting or lapse of restrictions of any outstanding Award, based in each case on such considerations as the Committee in its sole discretion determines;

(viii) to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreement relating thereto);

(ix) to establish any "blackout" period that the Committee in its sole discretion deems necessary or advisable;

(x) to decide all other matters that must be determined in connection with an Award; and

(xi) to otherwise administer the Plan.

(b) Procedures.

(i) The Committee may act only by a majority of its members then in office, except that the Committee may, except to the extent prohibited by applicable law or the listing standards of the Applicable Exchange and subject to Section 11, allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it.

(ii) Subject to Section 11(c), any authority granted to the Committee may also be exercised by the full Board. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control.

(c) Discretion of Committee. Subject to Section 1(h), any determination made by the Committee or by an appropriately delegated officer pursuant to delegated authority under the provisions of the Plan with respect to any Award shall be made in the sole discretion of the Committee or such delegate at the time of the grant of the Award or, unless in contravention of any express term of the Plan, at any time thereafter. All decisions made by the Committee or any appropriately delegated officer pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company, Participants, and Eligible Individuals.

(d) Award Agreements. The terms and conditions of each Award (other than any Bonus Award), as determined by the Committee, shall be set forth in an Award Agreement, which shall be delivered to the Participant receiving such Award upon, or as promptly as is reasonably practicable following, the grant of such Award. The effectiveness of an Award shall not be subject to the Award Agreement's being signed by the Company and/or the Participant receiving the Award unless specifically so provided in the Award Agreement. Award Agreements may be amended only in accordance with Section 12 hereof.

### SECTION 3. COMMON STOCK SUBJECT TO PLAN

(a) Plan Maximums. The maximum number of Shares that may be delivered pursuant to Awards under the Plan shall be the sum of (i) the number of Shares that may be issuable upon exercise or vesting of the Adjusted Awards and (ii) 25,000,000. The maximum number of Shares that may be granted pursuant to Options intended to be Incentive Stock Options shall be 7,000,000 Shares. Shares subject to an Award under the Plan may be authorized and unissued Shares or may be treasury Shares.

(b) Individual Limits. During a calendar year,

(i) no single Participant may be granted Options and/or Stock Appreciation Rights covering in excess of 3,000,000 shares; or

(ii) no single Participant may be granted Qualified Performance Based Awards in the form of Restricted Stock Units or Restricted Stock covering in excess of 2,000,000 Shares in the aggregate; and

(iii) no non-employee Director may be granted any compensation (including cash and an Award) with a fair value, as determined under accounting rules, as of the Grant Date, of greater than \$1,000,000.

Provided, however, that Adjusted Awards shall not be subject to the limitations set forth in this Section 3(b).

(c) Rules for Calculating Shares Delivered.

(i) With respect to Awards other than Adjusted Awards, to the extent that any Award is forfeited, or any Option and the related Tandem SAR (if any) or Free-Standing SAR terminates, expires or lapses without being exercised, or any Award is settled for cash, the Shares subject to such Awards not delivered as a result thereof shall again be available for Awards under the Plan.

(ii) With respect to Awards other than Adjusted Awards, if the exercise price of any Option and/or the tax withholding obligations relating to any Award are satisfied by delivering Shares to the Company (by either actual delivery or by attestation), only the number of Shares issued net of the Shares delivered or attested to shall be deemed delivered for purposes of the limits set forth in Section 3(a).

(iii) With respect to Awards other than Adjusted Awards, to the extent any Shares subject to an Award are withheld to satisfy the exercise price (in the case of an Option) and/or the tax withholding obligations relating to such Award, such Shares shall not be deemed to have been delivered for purposes of the limits set forth in Section 3(a).

(d) Adjustment Provisions.

(i) In the event of a merger, consolidation, acquisition of property or shares, stock rights offering, liquidation, Disaffiliation, or similar event affecting the Company or any of its Subsidiaries (each, a "Corporate Transaction"), the Committee or the Board may in its discretion make such substitutions or adjustments as it deems appropriate and

equitable to (A) the aggregate number and kind of Shares or other securities reserved for issuance and delivery under the Plan, (B) the various maximum limitations set forth in Sections 3(a) and 3(b) upon certain types of Awards and upon the grants to individuals of certain types of Awards, (C) the number and kind of Shares or other securities subject to outstanding Awards; and (D) the exercise price of outstanding Options and Stock Appreciation Rights.

(ii) In the event of a stock dividend, stock split, reverse stock split, separation, spinoff, reorganization, extraordinary dividend of cash or other property, share combination, or recapitalization or similar event affecting the capital structure of the Company (each, a "Share Change"), the Committee or the Board shall make such substitutions or adjustments as it deems appropriate and equitable to (A) the aggregate number and kind of Shares or other securities reserved for issuance and delivery under the Plan, (B) the various maximum limitations set forth in Sections 3(a) and 3(b) upon certain types of Awards and upon the grants to individuals of certain types of Awards, the number and kind of Shares or other securities subject to outstanding Awards; and (C) the exercise price of outstanding Options and Stock Appreciation Rights.

(iii) In the case of Corporate Transactions, the adjustments contemplated by clause (i) of this paragraph (d) may include, without limitation, (A) the cancellation of outstanding Awards in exchange for payments of cash, property or a combination thereof having an aggregate value equal to the value of such Awards, as determined by the Committee or the Board in its sole discretion (it being understood that in the case of a Corporate Transaction with respect to which holders of Common Stock receive consideration other than publicly traded equity securities of the ultimate surviving entity, any such determination by the Committee that the value of an Option or Stock Appreciation Right shall for this purpose be deemed to equal the excess, if any, of the value of the consideration being paid for each Share pursuant to such Corporate Transaction over the exercise price of such Option or Stock Appreciation Right shall conclusively be deemed valid); (B) the substitution of other property (including, without limitation, cash or other securities of the Company and securities of entities other than the Company) for the Shares subject to outstanding Awards; and (C) in connection with any Disaffiliation, arranging for the assumption of Awards, or replacement of Awards with new awards based on other property or other securities (including, without limitation, other securities of the Company and securities of entities other than the Company), by the affected Subsidiary, Affiliate, or division or by the entity that controls such Subsidiary, Affiliate, or division following such Disaffiliation (as well as any corresponding adjustments to Awards that remain based upon Company securities).

(iv) Any adjustment under this Section 3(d) need not be the same for all Participants.

(v) Any adjustments made pursuant to this Section 3(d) to Awards that are considered "deferred compensation" within the meaning of Section 409A of the Code shall be made in compliance with the requirements of Section 409A of the Code. Any adjustments made pursuant to this Section 3(d) to Awards that are not considered "deferred compensation" subject to Section 409A of the Code shall be made in such a manner as to ensure that after such adjustment, the Awards either (A) continue not to be subject to Section 409A of the Code or (B) comply with the requirements of Section 409A of the

Code. In any event, neither the Committee nor the Board shall have the authority to make any adjustments pursuant to this Section 3(d) to the extent the existence of such authority would cause an Award that is not intended to be subject to Section 409A of the Code at the Grant Date to be subject thereto.

#### **SECTION 4. ELIGIBILITY**

Awards may be granted under the Plan to Eligible Individuals and, with respect to Adjusted Awards, in accordance with the terms of the Employee Matters Agreement; provided, however, that Incentive Stock Options may be granted only to employees of the Company and its subsidiaries or parent corporation (within the meaning of Section 424(f) of the Code) and, with respect to Adjusted Awards that are intended to qualify as incentive stock options within the meaning of Section 421 of the Code, in accordance with the terms of the Employee Matters Agreement.

#### **SECTION 5. OPTIONS AND STOCK APPRECIATION RIGHTS**

With respect to Adjusted Awards, the provisions below will be applicable only to the extent that they are not inconsistent with the Employee Matters Agreement and the terms of the applicable Adjusted Award assumed under the Employee Matters Agreement:

(a) **Types of Options.** Options may be of two types: Incentive Stock Options and Nonqualified Options. The Award Agreement for an Option shall indicate whether the Option is intended to be an Incentive Stock Option or a Nonqualified Option.

(b) **Types and Nature of Stock Appreciation Rights.** Stock Appreciation Rights may be “Tandem SARs,” which are granted in conjunction with an Option, or “Free-Standing SARs,” which are not granted in conjunction with an Option. Upon the exercise of a Stock Appreciation Right, the Participant shall be entitled to receive an amount in cash, Shares, or both, in value equal to the product of (i) the excess of the Fair Market Value of one Share over the exercise price of the applicable Stock Appreciation Right, multiplied by (ii) the number of Shares in respect of which the Stock Appreciation Right has been exercised. The applicable Award Agreement shall specify whether such payment is to be made in cash or Common Stock or both, or shall reserve to the Committee or the Participant the right to make that determination prior to or upon the exercise of the Stock Appreciation Right.

(c) **Tandem SARs.** A Tandem SAR may be granted at the Grant Date of the related Option. A Tandem SAR shall be exercisable only at such time or times and to the extent that the related Option is exercisable in accordance with the provisions of this Section 5, and shall have the same exercise price as the related Option. A Tandem SAR shall terminate or be forfeited upon the exercise or forfeiture of the related Option, and the related Option shall terminate or be forfeited upon the exercise or forfeiture of the Tandem SAR.

(d) **Exercise Price.** The exercise price per Share subject to an Option or Free- Standing SAR shall be determined by the Committee and set forth in the applicable Award Agreement, and shall not be less than the Fair Market Value of a share of the Common Stock on the applicable Grant Date. In no event may any Option or Free-Standing SAR granted under this Plan be amended, other than pursuant to Section 3(d), to decrease the exercise price thereof, be cancelled in conjunction with the grant of any new Option or Free-Standing SAR with a lower exercise price,

be cancelled for cash or other Award or otherwise be subject to any action that would be treated, for accounting purposes, as a “repricing” of such Option or Free-Standing SAR, unless such amendment, cancellation, or action is approved by the Company’s stockholders.

(e) Term. The Term of each Option and each Free-Standing SAR shall be fixed by the Committee, but shall not exceed ten years from the Grant Date in the case of an Incentive Stock Option.

(f) Vesting and Exercisability. Except as otherwise provided herein, Options and Free-Standing SARs shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee. If the Committee provides that any Option or Free-Standing SAR will become exercisable only in installments, the Committee may at any time waive such installment exercise provisions, in whole or in part, based on such factors as the Committee may determine. In addition, the Committee may at any time accelerate the exercisability of any Option or Free-Standing SAR. In the event of a temporary absence exceeding ninety (90) days, the Company shall have authority to suspend the vesting period for such period of time and on such terms as management of the Company shall deem appropriate.

(g) Method of Exercise. Subject to the provisions of this Section 5, Options and Free-Standing SARs may be exercised, in whole or in part, at any time during the applicable Term by giving written notice of exercise to the Company or through the procedures established with the Company’s appointed third-party Option administrator specifying the number of Shares as to which the Option or Free-Standing SAR is being exercised; provided, however, that, unless otherwise permitted by the Committee, any such exercise must be with respect to a portion of the applicable Option or Free-Standing SAR relating to no less than the lesser of the number of Shares then subject to such Option or Free-Standing SAR or 100 Shares. In the case of the exercise of an Option, such notice shall be accompanied by payment in full of the purchase price (which shall equal the product of such number of Shares multiplied by the applicable exercise price) by certified or bank check or such other instrument as the Company may accept. If approved by the Committee, payment, in full or in part, may also be made as follows:

(i) Payments may be made in the form of unrestricted Shares (by delivery of such Shares or by attestation) of the same class as the Common Stock subject to the Option already owned by the Participant (based on the Fair Market Value of the Common Stock on the date the Option is exercised); provided, however, that, in the case of an Incentive Stock Option, the right to make a payment in the form of already owned Shares of the same class as the Common Stock subject to the Option may be authorized only at the time the Option is granted.

(ii) To the extent permitted by applicable law, payment may be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if requested, the amount of any federal, state, local or foreign withholding taxes. To facilitate the foregoing, the Company may, to the extent permitted by applicable law, enter into agreements for coordinated procedures with one or more brokerage firms. To the extent permitted by applicable law, the Committee may also provide for Company loans to be made for purposes of the exercise of Options.

(A) Payment may be made by instructing the Committee to withhold a number of Shares having a Fair Market Value (based on the Fair Market Value of the Common Stock on the date the applicable Option is exercised) equal to the product of (A) the exercise price multiplied by (B) the number of Shares in respect of which the Option shall have been exercised.

(h) Delivery; Rights of Stockholders. No Shares shall be delivered pursuant to the exercise of an Option until the exercise price therefor has been fully paid and applicable taxes have been withheld. The applicable Participant shall have all of the rights of a stockholder of the Company holding the class or series of Common Stock that is subject to the Option or Stock Appreciation Right (including, if applicable, the right to vote the applicable Shares and the right to receive dividends), when the Participant (i) has given written notice of exercise, (ii) if requested, has given the representation described in Section 14(a), and (iii) in the case of an Option, has paid in full for such Shares.

(i) Terminations of Employment. Subject to Section 10(c), a Participant's Options and Stock Appreciation Rights shall be forfeited upon such Participant's Termination of Employment, except as set forth below:

(i) Upon a Participant's Termination of Employment by reason of death, any Option or Stock Appreciation Right that was unvested at the time of death shall automatically vest and all Options or Stock Appreciation Rights held by the Participant may be exercised at any time until the earlier of (A) the first anniversary of the date of such death and (B) the expiration of the Term thereof;

(ii) Upon a Participant's Termination of Employment by reason of Disability or Retirement, any Option or Stock Appreciation Right held by the Participant that was exercisable immediately before the Termination of Employment may be exercised at any time until the earlier of (A) the first anniversary of such Termination of Employment and the expiration of the Term thereof;

(iii) Upon a Participant's Termination of Employment for Cause, any Option or Stock Appreciation Right held by the Participant shall be forfeited, effective as of such Termination of Employment;

(iv) Upon a Participant's Termination of Employment for any reason other than death, Disability, Retirement or for Cause, any Option or Stock Appreciation Right held by the Participant that was exercisable immediately before the Termination of Employment may be exercised at any time until the earlier of (A) the 90th day following such Termination of Employment and (B) expiration of the Term thereof; and

(v) Notwithstanding the above provisions of this Section 5(i), if a Participant dies after such Participant's Termination of Employment but while any Option or Stock Appreciation Right remains exercisable as set forth above, such Option or Stock Appreciation Right may be exercised at any time until the later of (A) the earlier of (1) the first anniversary of the date of such death and (2) expiration of the Term thereof and (B) the last date on which such Option or Stock Appreciation Right would have been exercisable, absent this Section 5(i)(v).

Notwithstanding the foregoing, the Committee shall have the power, in its discretion, to apply different rules concerning the consequences of a Termination of Employment; provided, however, that if such rules are less favorable to the Participant than those set forth above, such rules are set forth in the applicable Award Agreement. If an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Option will thereafter be treated as a Nonqualified Option.

(j) Nontransferability of Options and Stock Appreciation Rights. No Option or Free- Standing SAR shall be transferable by a Participant other than (i) by will or by the laws of descent and distribution, or (ii) in the case of a Nonqualified Option or Free-Standing SAR, pursuant to a qualified domestic relations order or as otherwise expressly permitted by the Committee including, if so permitted, pursuant to a transfer to the Participant's family members or to a charitable organization, whether directly or indirectly or by means of a trust or partnership or otherwise. For purposes of this Plan, unless otherwise determined by the Committee, "family member" shall have the meaning given to such term in General Instructions A.1(a)(5) to Form S- 8 under the Securities Act of 1933, as amended, and any successor thereto. A Tandem SAR shall be transferable only with the related Option as permitted by the preceding sentence. Any Option or Stock Appreciation Right shall be exercisable, subject to the terms of this Plan, only by the applicable Participant, the guardian or legal representative of such Participant, or any person to whom such Option or Stock Appreciation Right is permissibly transferred pursuant to this Section 5(j), it being understood that the term "Participant" includes such guardian, legal representative and other transferee; provided, however, that the term "Termination of Employment" shall continue to refer to the Termination of Employment of the original Participant.

## **SECTION 6. RESTRICTED STOCK**

With respect to Adjusted Awards, the provisions below will be applicable only to the extent that they are not inconsistent with the Employee Matters Agreement and the terms of the Adjusted Award assumed under the Employee Matters Agreement:

(a) Nature of Awards and Certificates. Shares of Restricted Stock are actual Shares issued to a Participant, and shall be evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of one or more stock certificates. Any certificate issued in respect of Shares of Restricted Stock shall be registered in the name of the applicable Participant and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award, substantially in the following form:

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the TripAdvisor, Inc. 2011 Stock and Annual Incentive Plan and an Award Agreement. Copies of such Plan and Agreement are on file at the offices of TripAdvisor, Inc."

The Committee may require that the certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed and that, as a condition of any Award of Restricted Stock, the applicable Participant shall have delivered a stock power, endorsed in

blank, relating to the Common Stock covered by such Award.

(b) Terms and Conditions. Shares of Restricted Stock shall be subject to the following terms and conditions:



(i) The Committee shall, prior to or at the time of grant, condition the vesting or transferability of an Award of Restricted Stock upon the continued service of the applicable Participant or the attainment of Performance Goals, or the attainment of Performance Goals and the continued service of the applicable Participant. In the event that the Committee conditions the grant or vesting of an Award of Restricted Stock upon the attainment of Performance Goals or the attainment of Performance Goals and the continued service of the applicable Participant, the Committee may, prior to or at the time of grant, designate such an Award as a Qualified Performance-Based Award. The conditions for grant, vesting, or transferability and the other provisions of Restricted Stock Awards (including without limitation any Performance Goals) need not be the same with respect to each Participant.

(ii) Subject to the provisions of the Plan and the applicable Award Agreement, during the period, if any, set by the Committee, commencing with the date of such Restricted Stock Award for which such vesting restrictions apply and until the expiration of such vesting restrictions (the "RS Restriction Period"), the Participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber Shares of Restricted Stock.

(iii) Except as provided in this Section 6 and in the applicable Award Agreement, the applicable Participant shall have, with respect to the Shares of Restricted Stock, all of the rights of a stockholder of the Company holding the class or series of Common Stock that is the subject of the Restricted Stock, including, if applicable, the right to vote the Shares and the right to receive any cash dividends. If so determined by the Committee in the applicable Award Agreement and subject to Section 14(e), (A) cash dividends on the class or series of Common Stock that is the subject of the Restricted Stock Award shall be automatically reinvested in additional Restricted Stock, held subject to the vesting of the underlying Restricted Stock, and (B) subject to any adjustment pursuant to Section 3(d), dividends payable in Common Stock shall be paid in the form of Restricted Stock of the same class as the Common Stock with which such dividend was paid, held subject to the vesting of the underlying Restricted Stock.

(iv) Except as otherwise set forth in the applicable Award Agreement and subject to Section 10(c), upon a Participant's Termination of Employment for any reason (other than death) during the RS Restriction Period or before the applicable Performance Goals are satisfied, all Shares of Restricted Stock still subject to restriction shall be forfeited by such Participant; provided, however, that subject to Section 11(b), the Committee shall have the discretion to waive, in whole or in part, any or all remaining restrictions with respect to any or all of such Participant's Shares of Restricted Stock. Upon a Participant's Termination of Employment by reason of death, during the RS Restriction Period or before the applicable Performance Goals are satisfied, all Shares of Restricted Stock shall immediately and automatically vest.

(v) If and when any applicable Performance Goals are satisfied and the RS Restriction Period expires without a prior forfeiture of the Shares of Restricted Stock for which legended certificates have been issued, unlegended certificates for such Shares shall be delivered to the Participant upon surrender of the legended certificates.

## SECTION 7. RESTRICTED STOCK UNITS

With respect to Adjusted Awards, the provisions below will be applicable only to the extent that they are not inconsistent with the Employee Matters Agreement and the terms of the Adjusted Award assumed under the Employee Matters Agreement:

(a) Nature of Awards. Restricted Stock Units are Awards denominated in Shares that will be settled, subject to the terms and conditions of the Restricted Stock Units, in an amount in cash, Shares or both, based upon the Fair Market Value of a specified number of Shares.

(b) Terms and Conditions. Restricted Stock Units shall be subject to the following terms and conditions:

(i) The Committee shall, prior to or at the time of grant, condition the grant, vesting, or transferability of Restricted Stock Units upon the continued service of the applicable Participant or the attainment of Performance Goals, or the attainment of Performance Goals and the continued service of the applicable Participant. In the event that the Committee conditions the grant or vesting of Restricted Stock Units upon the attainment of Performance Goals or the attainment of Performance Goals and the continued service of the applicable Participant, the Committee may, prior to or at the time of grant, designate such Awards as Qualified Performance-Based Awards. The conditions for grant, vesting or transferability and the other provisions of Restricted Stock Units (including without limitation any Performance Goals) need not be the same with respect to each Participant. In the event of a temporary absence exceeding ninety (90) days, the Company shall have authority to suspend the vesting of such Restricted Stock Units for such period of time and on such terms as management of the Company shall deem appropriate.

(ii) Subject to the provisions of the Plan and the applicable Award Agreement, during the period, if any, set by the Committee, commencing with the date of such Restricted Stock Units for which such vesting restrictions apply and until the expiration of such vesting restrictions (the "RSU Restriction Period"), the Participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber Restricted Stock Units.

(iii) The Award Agreement for Restricted Stock Units shall specify whether, to what extent and on what terms and conditions the applicable Participant shall be entitled to receive current or delayed payments of cash, Common Stock or other property corresponding to the dividends payable on the Common Stock (subject to Section 14(e) below).

(iv) Except as otherwise set forth in the applicable Award Agreement and subject to Section 10(c), upon a Participant's Termination of Employment for any reason during the RSU Restriction Period or before the applicable Performance Goals are satisfied, all Restricted Stock Units still subject to restriction shall be forfeited by such Participant; provided, however, that subject to Section 11(b), the Committee shall have the discretion to waive, in whole or in part, any or all remaining restrictions with respect to any or all of such Participant's Restricted Stock Units; and; provided, further, upon a Participant's Termination of Employment by reason of death, during the RSU Restriction Period or before the applicable Performance Goals are satisfied, all Restricted Stock Units shall immediately and automatically vest.

(v) Except to the extent otherwise provided in the applicable Award Agreement, an award of Restricted Stock Units shall be settled as and when the Restricted Stock Units vest (but in no event later than March 15 of the calendar year following the end of the calendar year in which the Restricted Stock Units vest).

## **SECTION 8. OTHER STOCK-BASED AWARDS**

Other Awards of Common Stock and other Awards that are valued in whole or in part by reference to, or are otherwise based upon or settled in, Common Stock, including (without limitation), unrestricted stock, performance units, dividend equivalents, and convertible debentures, may be granted under the Plan.

## **SECTION 9. BONUS AWARDS**

(a) **Determination of Awards.** The Committee shall determine the total amount of Bonus Awards for each Plan Year or such shorter performance period as the Committee may establish in its sole discretion. Bonus amounts payable to any individual Participant with respect to a Plan Year will be limited to a maximum of \$10 million. For performance periods that are shorter than a Plan Year, such \$10 million maximum may be pro-rated to the extent provided by the Committee. Bonus Awards that are Qualified Performance-Based Awards shall be subject to the provisions of Section 11 of this Plan.

(b) **Payment of Awards.** Bonus Awards under the Plan shall be paid in cash or in Shares (valued at Fair Market Value as of the date of payment) as determined by the Committee, as soon as practicable following the close of the Plan Year or such shorter performance period as the Committee may establish. It is intended that a Bonus Award will be paid no later than the fifteenth (15th) day of the third month following the later of: (i) the end of the Participant's taxable year in which the requirements for such Bonus Award have been satisfied by the Participant or (ii) the end of the Company's fiscal year in which the requirements for such Bonus Award have been satisfied by the Participant. The Committee may at its option establish procedures pursuant to which Participants are permitted to defer the receipt of Bonus Awards payable hereunder. The Bonus Award to any Participant for any Plan Year or such shorter performance period may be reduced or eliminated by the Committee in its discretion.

## **SECTION 10. CHANGE IN CONTROL PROVISIONS**

(a) **Definition of Change in Control.** Except as otherwise may be provided in an applicable Award Agreement, for purposes of the Plan, a "Change in Control" shall mean any of

the following events:

(i) The acquisition by any individual entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), other than Liberty TripAdvisor Holdings, Inc., and its Affiliates (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of equity securities of the Company representing more than 50% of the voting power of the then outstanding equity securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control: (A) any acquisition by the Company, (B) any acquisition directly from the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (D) any acquisition pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (iii); or

(ii) Individuals who, as of the Effective Date, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date, whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the purchase of assets or stock of another entity (a “Business Combination”), in each case, unless immediately following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Voting Securities immediately prior to such Business Combination will beneficially own, directly or indirectly, more than 50% of the then outstanding combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors (or equivalent governing body, if applicable) of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Voting Securities, (B) no Person (excluding Liberty TripAdvisor Holdings, Inc., and its Affiliates, any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination) will beneficially own, directly or indirectly, more than a majority of the combined voting power of the then outstanding voting securities of such entity except to the extent that such ownership of the Company existed prior to the Business Combination and (C) at least a majority of the members of the board of directors (or equivalent governing body, if applicable) of the entity resulting from such Business Combination will have been members of the Incumbent Board at the time of the initial agreement, or action of the Board, providing for such Business Combination; or

(iv) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(b) Impact of Event/Double Trigger. Unless otherwise provided in the applicable Award Agreement, subject to Sections 3(d), 10(d) and 14(k), and with respect to Adjusted Awards only, to the extent specified in an Award Agreement, notwithstanding any other provision of this Plan to the contrary, upon a Participant's Termination of Employment, during the two-year period following a Change in Control, by the Company other than for Cause or Disability or by the Participant for Good Reason (as defined below):

(i) any Options and Stock Appreciation Rights outstanding as of such Termination of Employment which were outstanding as of the date of such Change in Control (including any Options and Stock Appreciation Rights that became vested pursuant to Section 10(a)) shall be fully exercisable and vested and shall remain exercisable until the later of (i) the last date on which such Option or Stock Appreciation Right would be exercisable in the absence of this Section 10(c) and (ii) the earlier of (A) the first anniversary of such Change in Control and (B) expiration of the Term of such Option or Stock Appreciation Right;

(ii) all Restricted Stock outstanding as of such Termination of Employment which were outstanding as of the date of such Change in Control shall become free of all restrictions and become fully vested and transferable; and

(iii) all Restricted Stock Units outstanding as of such Termination of Employment which were outstanding as of the date of such Change in Control shall be considered to be earned and payable in full, and any restrictions shall lapse and such Restricted Stock Units shall be settled as promptly as is practicable (but in no event later than March 15 of the calendar year following the end of the calendar year in which the Restricted Stock Units vest).

(c) For purposes of this Section 10, "Good Reason" means (i) "Good Reason" as defined in any Individual Agreement or Award Agreement to which the applicable Participant is a party, or (ii) if there is no such Individual Agreement or if it does not define Good Reason, without the Participant's prior written consent: (A) a material reduction in the Participant's rate of annual base salary from the rate of annual base salary in effect for such Participant immediately prior to the Change in Control, (B) a relocation of the Participant's principal place of business more than 35 miles from the city in which such Participant's principal place of business was located immediately prior to the Change in Control or (C) a material and demonstrable adverse change in the nature and scope of the Participant's duties from those in effect immediately prior to the Change in Control. In order to invoke a Termination of Employment for Good Reason, a Participant shall provide written notice to the Company of the existence of one or more of the conditions described in clauses (A) through (C) within 90 days following the Participant's knowledge of the initial existence of such condition or conditions, and the Company shall have 30 days following receipt of such written notice (the "Cure Period") during which it may remedy the condition. In the event that the Company fails to remedy the condition constituting Good Reason during the Cure Period, the Participant must terminate employment, if at all, within 90 days following the Cure Period in order for such Termination of Employment to constitute a Termination of Employment for Good Reason.

(d) Notwithstanding the foregoing, if any Award is subject to Section 409A of the Code, this Section 10 shall be applicable only to the extent specifically provided in the Award Agreement or in the Individual Agreement.

#### **SECTION 11. QUALIFIED PERFORMANCE-BASED AWARDS; SECTION 16(b)**

(a) The provisions of this Plan are intended to ensure that all Options and Stock Appreciation Rights granted hereunder to any Participant who is or may be a “covered employee” (within the meaning of Section 162(m)(3) of the Code) in the tax year in which such Option or Stock Appreciation Right is expected to be deductible to the Company qualify for the Section 162(m) Exemption, and all such Awards shall therefore be considered Qualified Performance-Based Awards and this Plan shall be interpreted and operated consistent with that intention (including, without limitation, to require that all such Awards be granted by a committee composed solely of members who satisfy the requirements for being “outside directors” for purposes of the Section 162(m) Exemption (“Outside Directors”). When granting any Award other than an Option or Stock Appreciation Right, the Committee may designate such Award as a Qualified Performance-Based Award, based upon a determination that (i) the recipient is or may be a “covered employee” (within the meaning of Section 162(m)(3) of the Code) with respect to such Award, and (ii) the Committee wishes such Award to qualify for the Section 162(m) Exemption, and the terms of any such Award (and of the grant thereof) shall be consistent with such designation (including, without limitation, that all such Awards be granted by a committee composed solely of Outside Directors).

(b) Each Qualified Performance-Based Award (other than an Option or Stock Appreciation Right) shall be earned, vested and payable (as applicable) only upon the achievement of one or more Performance Goals, together with the satisfaction of any other conditions, such as continued employment, as the Committee may determine to be appropriate, and no Qualified Performance-Based Award may be amended, nor may the Committee exercise any discretionary authority it may otherwise have under this Plan with respect to a Qualified Performance-Based Award under this Plan, in any manner that would cause the Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption; provided, however, that (i) the Committee may provide, either in connection with the grant of the applicable Award or by amendment thereafter, that achievement of such Performance Goals will be waived upon the death or Disability of the Participant or under any other circumstance with respect to which the existence of such possible waiver will not cause the Award to fail to qualify for the Section 162(m) Exemption as of the Grant Date, and (ii) the provisions of Section 10 shall apply notwithstanding this Section 11(b).

(c) The full Board shall not be permitted to exercise authority granted to the Committee to the extent that the grant or exercise of such authority would cause an Award designated as a Qualified Performance-Based Award not to qualify for, or to cease to qualify for, the Section 162(m) Exemption.

(d) The provisions of this Plan are intended to ensure that no transaction under the Plan is subject to (and all such transactions will be exempt from) the short-swing recovery rules of Section 16(b) of the Exchange Act (“Section 16(b)"). Accordingly, the composition of the Committee shall be subject to such limitations as the Board deems appropriate to permit transactions pursuant to this Plan to be exempt (pursuant to Rule 16b-3 promulgated under the Exchange Act) from Section 16(b), and no delegation of authority by the Committee shall be permitted if such delegation would cause any such transaction to be subject to (and not exempt

from) Section 16(b).

## **SECTION 12. TERM, AMENDMENT AND TERMINATION**

(a) Effectiveness. The Plan shall be effective as of December 20, 2011 (the “Effective Date”).

(b) Termination. The Plan will terminate on the tenth anniversary of the Effective Date. Awards outstanding as of such date shall not be affected or impaired by the termination of the Plan.

(c) Amendment of Plan. The Board may amend, alter, or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which would materially impair the rights of the Participant with respect to a previously granted Award without such Participant’s consent, except such an amendment made to comply with applicable law (including without limitation Section 409A of the Code), stock exchange rules or accounting rules. In addition, no such amendment shall be made without the approval of the Company’s stockholders to the extent such approval is required by applicable law or the listing standards of the Applicable Exchange.

(d) Amendment of Awards. Subject to Section 5(d), the Committee may unilaterally amend the terms of any Award theretofore granted, prospectively or retroactively, but no such amendment shall, without the Participant’s consent, materially impair the rights of any Participant with respect to an Award, except such an amendment made to cause the Plan or Award to comply with applicable law, stock exchange rules or accounting rules.

## **SECTION 13. UNFUNDED STATUS OF PLAN**

It is presently intended that the Plan constitute an “unfunded” plan. Solely to the extent permitted under Section 409A, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or make payments; provided, however, that the existence of such trusts or other arrangements is consistent with the “unfunded” status of the Plan. Notwithstanding any other provision of this Plan to the contrary, with respect to any Award that constitutes a “nonqualified deferred compensation plan” within the meaning of Section 409A of the Code, no trust shall be funded with respect to any such Award if such funding would result in taxable income to the Participant by reason of Section 409A(b) of the Code and in no event shall any such trust assets at any time be located or transferred outside of the United States, within the meaning of Section 409A(b) of the Code.

## **SECTION 14. GENERAL PROVISIONS**

(a) Conditions for Issuance. The Committee may require each person purchasing or receiving Shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the Shares without a view to the distribution thereof. The certificates for such Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer. Notwithstanding any other provision of the Plan or agreements made pursuant thereto, the Company shall not be required to issue or deliver any certificate or certificates for Shares under the Plan prior to fulfillment of all of the following conditions: (i) listing or approval for listing upon notice of issuance, of such Shares on the Applicable Exchange; (ii) any registration or other qualification of such Shares of the Company under any state or federal law or regulation, or the maintaining in effect of any such registration or other qualification which the

Committee shall, in its absolute discretion upon the advice of counsel, deem necessary or advisable; and (iii) obtaining any other consent, approval, or permit from any state or federal governmental agency which the Committee shall, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable.

(b) **Additional Compensation Arrangements.** Nothing contained in the Plan shall prevent the Company or any Subsidiary or Affiliate from adopting other or additional compensation arrangements for its employees.

(c) **No Contract of Employment.** The Plan shall not constitute a contract of employment, and adoption of the Plan shall not confer upon any employee any right to continued employment, nor shall it interfere in any way with the right of the Company or any Subsidiary or Affiliate to terminate the employment of any employee at any time.

(d) **Required Taxes.** No later than the date as of which an amount first becomes includible in the gross income of a Participant for federal, state, local or foreign income or employment or other tax purposes with respect to any Award under the Plan, such Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. If determined by the Company, withholding obligations may be settled with Common Stock, including Common Stock that is part of the Award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to such Participant. The Committee may establish such procedures as it deems appropriate, including making irrevocable elections, for the settlement of withholding obligations with Common Stock.

(e) **Limitation on Dividend Reinvestment and Dividend Equivalents.** Reinvestment of dividends in additional Restricted Stock at the time of any dividend payment, and the payment of Shares with respect to dividends to Participants holding Awards of Restricted Stock Units, shall only be permissible if sufficient Shares are available under Section 3 for such reinvestment or payment (taking into account then outstanding Awards). In the event that sufficient Shares are not available for such reinvestment or payment, such reinvestment or payment shall be made in the form of a grant of Restricted Stock Units equal in number to the Shares that would have been obtained by such payment or reinvestment, the terms of which Restricted Stock Units shall provide for settlement in cash and for dividend equivalent reinvestment in further Restricted Stock Units on the terms contemplated by this Section 14(e).

(f) **Designation of Death Beneficiary.** The Committee shall establish such procedures as it deems appropriate for a Participant to designate a beneficiary to whom any amounts payable in the event of such Participant's death are to be paid or by whom any rights of such eligible Individual, after such Participant's death, may be exercised.

(g) **Subsidiary Employees.** In the case of a grant of an Award to any employee of a Subsidiary of the Company, the Company may, if the Committee so directs, issue or transfer the Shares, if any, covered by the Award to the Subsidiary, for such lawful consideration as the Committee may specify, upon the condition or understanding that the Subsidiary will transfer the Shares to the employee in accordance with the terms of the Award specified by the Committee pursuant to the provisions of the Plan. All Shares underlying Awards that are forfeited or canceled



should revert to the Company.

(h) **Governing Law and Interpretation.** The Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. The captions of this Plan are not part of the provisions hereof and shall have no force or effect.

(i) **Non-Transferability.** Except as otherwise provided in Section 5(j) or by the Committee, Awards under the Plan are not transferable except by will or by laws of descent and distribution.

(j) **Foreign Employees and Foreign Law Considerations.** The Committee may grant Awards to Eligible Individuals who are foreign nationals, who are located outside the United States or who are not compensated from a payroll maintained in the United States, or who are otherwise subject to (or could cause the Company to be subject to) legal or regulatory provisions of countries or jurisdictions outside the United States, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance of such purposes, the Committee may make such modifications, amendments, procedures, or subplans as may be necessary or advisable to comply with such legal or regulatory provisions.

(k) **Section 409A of the Code.** It is the intention of the Company that no Award shall be “deferred compensation” subject to Section 409A of the Code, unless and to the extent that the Committee specifically determines otherwise as provided in this Section 14(k), and the Plan and the terms and conditions of all Awards shall be interpreted accordingly. The terms and conditions governing any Awards that the Committee determines will be subject to Section 409A of the Code, including any rules for elective or mandatory deferral of the delivery of cash or Shares pursuant thereto and any rules regarding treatment of such Awards in the event of a Change in Control, shall be set forth in the applicable Award Agreement, and shall comply in all respects with Section 409A of the Code. Notwithstanding any other provision of the Plan to the contrary, with respect to any Award that constitutes a “nonqualified deferred compensation plan” subject to Section 409A of the Code, if the Participant is a “specified employee” within the meaning of Section 409A of the Code, any payments (whether in cash, Shares or other property) to be made with respect to the Award upon the Participant’s Termination of Employment shall be delayed until the earlier of (A) the first day of the seventh month following the Participant’s Termination of Employment and (B) the Participant’s death. Each payment under any Award shall be treated as a separate payment for purposes of Section 409A of the Code. In no event may a Participant, directly or indirectly, designate the calendar year of any payment to be made under any Award.

(l) **Employee Matters Agreement.** Notwithstanding anything in this Plan to the contrary, to the extent that the terms of this Plan are inconsistent with the terms of an Adjusted Award, the terms of the Adjusted Award shall be governed by the Employee Matters Agreement, the Expedia Long-Term Incentive Plan and the award agreement granted thereunder; provided, however, that in all events any reference to a “change in control,” “change of control” or similar definition in an Award Agreement or the applicable Expedia Long Term Incentive Plan for any such Adjusted Award shall be deemed to refer to a “change in control,” “change of control” or similar transaction with respect to the Company (as successor to the originally-referenced entity).

**Certification**

I, Stephen Kaufer, Chief Executive Officer of TripAdvisor, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2016 of TripAdvisor, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2016

/s/ STEPHEN KAUFER

Stephen Kaufer

*President and Chief Executive Officer*

**Certification**

I, Ernst Teunissen, Chief Financial Officer of TripAdvisor, Inc. certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2016 of TripAdvisor, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2016

/s/ ERNST TEUNISSEN

Ernst Teunissen

*Chief Financial Officer*

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of TripAdvisor, Inc. (the "Company") for the quarter ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen Kaufer, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- 1) the Report which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2016

/s/ STEPHEN KAUFER

Stephen Kaufer

*President and Chief Executive Officer*

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of TripAdvisor, Inc. (the "Company") for the quarter ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ernst Teunissen, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- 1) the Report which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2016

/s/ ERNST TEUNISSEN

Ernst Teunissen

*Chief Financial Officer*